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ABSTRACTS

Conventional Deterrence: predictive uncertainty and policy confidence

By R. K. BETTS

Recent studies overestimate the confidence NATO could have in conventional deterrence because their methodological premises are too technical or inductive, and insufficiently political or deductive. Limitations include excessive reliance on: deflation of Soviet competence; new technologies whose military impact is unpredictable; *a priori* analysis of force balances whose implications should be tempered by *a posteriori* analysis of past correlations between balances, strategic initiative, and initial victory; or conventional retaliatory options that would be militarily infeasible or politically counterproductive. Consistent theories for optimizing conventional deterrence are confounded by contradictory requirements posed by different threats. The only comprehensive doctrine to hedge against all variants is one that retains a nuclear component.

Subsidizing American Corporate Expansion Abroad: pitfalls in the analysis of public and private power

By J. GOWA

This analysis of the Eisenhower administration's attempts to change the corporate income tax code—initially to subsidize and later to curb American corporate expansion abroad—explores in microcosm the relationship of governmental and corporate power to postwar U.S. policy regarding private foreign investment by American corporations. The failure to control for variations in the intensity of the U.S. government's and the American MNCs' preferences across different historical contexts and policy issues is a serious omission in many studies in this field. Conclusions affirming any enduring distribution of power between public and private actors as determinants of U.S. policy regarding private capital exports are particularly vulnerable on this score. Sensitivity to the issues raised in the general literature on power analysis would enhance efforts to segregate and evaluate the relative weights of different variables in the determination of postwar U.S. foreign investment policy.

Growth and Fluctuations of Production in O.E.C.D. and East European Countries

By F. L. PRYOR

This essay presents empirical evidence to demonstrate that aggregate growth, retardation of growth, and fluctuations of growth are roughly the same in the capitalist, market economies of the O.E.C.D. as in the socialist, centrally administered economies of Eastern Europe. The major difference in the patterns of growth of the two sets of countries is that dynamic efficiency is greater in the market economies than in the centrally administered economies.

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Communism and Clientelism: rural politics in China

By J. C. Oi

Elite/mass relations in the contemporary Chinese countryside can be characterized as a form of clientelist rule. Although there are state-mandated subsistence guarantees, other factors provide a basis for clientelism—particularly the economic dependence of peasants on their collective production units and, by extension, their team leaders. This dependence is engendered by a pattern of economic and political organization that allows local leaders to influence the income opportunities of individual peasants, their consumption of goods, and their access to collective welfare funds. Team leaders control income opportunities both within and outside of the collective framework; they have discretion in the allocation of welfare and loans from collective coffers; and, in administered systems of rationing and commodity distribution, they have a significant degree of personal control over the supply of scarce goods to peasants. This near-complete fusion of economic and political authority shapes the type of clientelism described in this article. The study is based on documentary materials and on interviews with former peasants and rural leaders from different regions of China.

Strategies of Policy Implementation: policy "winds" and brigade accounting in rural China, 1968-1978

By D. ZWEIG

This paper addresses the relationship among elite structure, techniques of mobilization, and local policy implementation. It explains the process of policy implementation where the determinants include the level of elite integration, the pattern of elite interaction with local leaders, and the redistributive nature of the policy content. Between 1968 and 1978, China's radical faction, confronting a disintegrated elite, employed informal channels—policy "winds"—to mobilize support for brigade accounting. Possessing only limited political influence at the center, the radicals, by using various strategies, still managed to place this issue on many local agendas. But their reliance on informal channels weakened their ability to monitor implementation. In many locations, the policy's redistributive nature motivated local "class" interests to evade it or simply to change the policy's content. Therefore the final outcome depended more on local conditions and interests than on the policy predilections of the elite.

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CONVENTIONAL DETERRENCE: Predictive Uncertainty and Policy Confidence

By RICHARD K. BETTS*

I. Analysis and Policy

FOR over three decades the North Atlantic Treaty Organization (NATO) has based its deterrent on the principle that the United States would retaliate with nuclear weapons if a Soviet conventional attack against Western Europe succeeded. This notion has long troubled most strategic analysts. It remained generally acceptable to political elites, however, when U.S. nuclear superiority appeared massive enough to make the doctrine credible (as in the 1950s); when the conventional military balance in Europe improved markedly (as in the 1960s); or when détente appeared to be making the credibility of deterrence a less pressing concern (as in the 1970s). None of these conditions exists in the 1980s, and anxiety over the danger of nuclear war has prompted renewed attention to the possibility of replacing NATO's Flexible Response doctrine (a mixture of nuclear and conventional deterrence) with a reliable conventional deterrence posture that might justify a nuclear no-first-use (NFU) doctrine.[1]

Opposition to NFU traditionally rested on the supposition that Soviet conventional superiority was too overwhelming to contest at acceptable levels of Western military expenditure. Numerous recent studies have shown persuasively that such assumptions are exaggerated, and that modest improvements might minimize chances of Soviet success according to the most prevalent standard of judgment: the calculated "balance" of deployable conventional military power. Although only a

* The author gives special thanks for trenchant criticisms of earlier drafts, and absolution for the current version, to John Mearsheimer, Barry Posen, and Lt. Col. Richard Sinnreich. He is also grateful to Lt. Col. Asa Clark, Michael Clarke, Joshua Epstein, Michael Handel, Samuel Huntington, Robert Jervis, William Kaufmann, Lt. Col. Daniel Kaufman, John Kester, Michael Mandelbaum, Gale Mattox, Maj. Jeffrey McKitrick, Thomas McNaugher, Col. Richard Polo, Scott Sagan, and Leon Sigal. An earlier version of this article was delivered as part of a lecture at the UCLA Center for International and Strategic Affairs in February 1984.

[1] The most prominent proposal is McGeorge Bundy, George Kennan, Gerard Smith, and Robert McNamara, "Nuclear Weapons and the Atlantic Alliance," *Foreign Affairs* 60 (Spring 1982).

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few of the analysts who have produced these studies endorse no-first-use, NFU advocates have used them to make their case.[2] In this essay, I accept the case for improving conventional options, but challenge reliance on conventional deterrence. My position rests on five arguments:

(1) Many studies demonstrating that NATO's chances of success in conventional operations could be quite good discredit traditional pessimism, but still tend to overestimate those chances. Factors apart from the balance of forces—especially asymmetries between attacker and defender in political constraints and leverage over the conditions of engagement—increase uncertainty.

(2) Past cases of modern war do not demonstrate that outcomes in the initial phase are highly sensitive to the balance of forces when imbalance is not extreme—and the initial phase is crucial for NATO. History does not disprove that NATO could hold, but it counsels uncertainty rather than confidence, *even if substantial improvement in the military balance were to be accomplished.*

(3) Much analysis of conventional deterrence is purely military in content, based on capabilities. Whether given capabilities deter, tempt, or provoke attack is highly dependent on political factors—especially the nature of a potential attacker's motives and beliefs. Depending on those factors, increased NATO capabilities could be superfluous, sufficient, or counterproductive to deterrence.

(4) Uncertainty (about conventional outcomes or about what could motivate an enemy attack) is conducive to deterrence when buttressed by a threat of awesome punishment (nuclear retaliation) that dramatically magnifies the risks for the attacker. Without that support, extremely high confidence in conventional options, rather than uncertainty, would be necessary to provide the same degree of deterrence. Moderately low credibility of escalatory threats may provide as much deterrence as moderately high probability of defense because the cost to the attacker of miscalculating his chances in the former instance is astronomically higher than in the latter. It is prudent to raise the probability that conventional defense would succeed, but little can be gained from dispensing with the complementary nuclear deterrent.

(5) Pure conventional deterrence raises the danger of nuclear war by making the potential consequences of resort to conventional war less unthinkable for the attacker. As long as nuclear weapons exist, so does the danger that any war between the superpowers could escalate despite

[2] For example, see Robert S. McNamara, "The Military Role of Nuclear Weapons: Perceptions and Misperceptions," *Foreign Affairs* 62 (Fall 1983).

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declared doctrines or actual intentions. Short of abandoning deterrence altogether, the best way to minimize the danger of nuclear war is to minimize the chance of conventional war.

The latter two arguments are based on logic; we have no cases of failure of deterrence between nuclear superpowers by which to judge what is necessary, insufficient, or counterproductive for deterrence. The former three arguments, however, have some empirical basis. Nuclear deterrence theory has of necessity been *a priori* in form, but conventional deterrence theory can complement this approach with *a posteriori* analysis. The relevant aspects of this obvious methodological distinction are elaborated in part III of this paper; the point is significant for two reasons.

First, it highlights the distinction between capability for conventional defense and successful deterrence—a distinction that is usually blurred in debate. Historically, many states have failed to deter attack even when their estimated capability to defend—according to technical analysis of the prewar balance of forces—was extremely high. That is because leaders rarely start wars frivolously or simply out of opportunism, but rather because incentives are compelling. Historical support for the idea that calculation of probabilities of success in terms of the prewar balance of forces exerts a decisive effect on deterrence would have to come from cases in which a government wished to start a war, but refrained because the balance was insufficiently favorable. Clear examples of this sort in the last half-century are hard to find. It is difficult to determine whether a government really wished to resort to force if it did not actually do so, or to determine what considerations were decisive in forcing a negative decision if it had wanted to go to war initially.

Second, if one assumes that an "adequate" position in the balance of forces (as measured by the best current methods of *a priori* calculation) is a good predictor of the potential outcome of combat, historical support is ambiguous. Because of the uniqueness of the current case (the NATO/Warsaw Pact confrontation) and the complexities of past cases, together with the uncertainty as to which of their numerous "lessons" are most pertinent, both pessimists and optimists can select historical data to support their views. In this brief essay, my use of historical examples cannot be comprehensively systematic. My selection of data is reasonable, however: it does not aim to make a strong argument for pessimistic predictions, but only to preclude strong confidence in optimistic assessments.

In analytical terms, that is a weak aim. In terms of policy, however, it is important. A deterrence theory that proves correct in four out of

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five cases is analytically impressive; a deterrence doctrine that proves incorrect in one out of five superpower crises is materially disastrous. Since the moral imperative to find an alternative to threats of nuclear first use is so strong, the modest epistemological case—that, even if NATO's position in the balance of forces improves, we cannot be sure that this will guarantee successful deterrence or defense—makes a powerful policy argument (against shifting to pure conventional deterrence).

II. Quality and Innovation

Prevalent pessimism has most often rested on simple counting of the number of soldiers, tanks, planes, and other weapons marshaled by NATO and by the Warsaw Pact countries. Differences in the effectiveness of individual units, however, mitigate the meaning of those totals. It is reasonable to argue that more advanced weapons, or better training and morale of NATO troops, counterbalance Soviet advantages; it is more difficult to estimate the extent to which they do so.

Threat Deflation

Military bureaucracies often inflate estimates of enemy power because it seems better to err on the side of caution, and because economy-minded politicians must be scared into allocating more resources to military programs. Limitations on available intelligence about enemy forces may make certain detectable aspects—particularly the number of weapons and combat formations—loom larger than they would if we could take full account of the subjective and qualitative factors that are less observable. That was a problem especially in the early years of the cold war, when the West lacked the monitoring assets that have evolved in the last two decades. Before the early 1960s, Soviet conventional forces were grossly overestimated in NATO assessments; bureaucratic political factors may account for this as much as limited intelligence does. The axiomatic comparison was of 175 Soviet army divisions against about 20 for NATO. Most of the Soviet units, however, were under-strength or reserve formations; even at full strength, they were smaller and less well equipped than the NATO divisions. Analysts in the Kennedy administration reevaluated the data, demonstrated that the real gap was not hopelessly large, and helped to justify the shift of deterrence doctrine from Massive Retaliation to Flexible Response.[3]

[3] Matthew A. Evangelista, "Stalin's Postwar Army Reappraised," *International Security* 7 (Winter 1982/1983), 110-38; Alan Enthoven and K. Wayne Smith, *How Much Is Enough?* (New York: Harper & Row, 1971), chap. 4.

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Recently, some critics have gone beyond revelation of faulty quantitative comparisons to focus on qualitative deficiencies. Based primarily on scrutiny of captured Soviet tanks and aircraft and on interviews with veterans, some now portray the Soviet military as almost a hollow shell. The principal charges are that much Russian equipment is primitive and apt to malfunction; troops have so little training or are so involved in civilian functions (such as construction) that they are unprepared for combat; abysmal morale, poor nutrition, ethnic cleavages, and language problems impair cohesion and wartime coordination.[4] Other critics cite the record of performance in World War II to argue that Soviet doctrine and command style are too cautious, ponderous, or incompetent to mount rapid and aggressive attacks or to exploit opportunities in the expeditious manner necessary for blitzkrieg-type operations that could prove decisive before NATO could mobilize its combat potential.[5] These critiques are valuable correctives to old stereotypes. But, though the Soviets are certainly not ten feet tall, neither are they midgets.[6]

First, much of the evidence about the wretchedness of the Soviet personnel system and peacetime practice is anecdotal and comes from emigrés (people who hated Soviet life so much that they left) who had been conscripts. This does not invalidate the data; but anyone who ever served as an enlisted man in the U.S. Army (or any other) can regale drinking buddies with stories of the stupidity, bureaucratization, and inanity or insanity of the way the military works at low levels from day to day. NATO forces, perhaps less significantly than those of the East, have faced similar problems. In the 1970s, the U.S. Seventh Army in Germany had to cope with racial tension, drug abuse, and low education or mental aptitude levels of recruits. (These problems declined in the early 1980s, but recruiting then was facilitated by high unemployment—hardly a desirable basis for long-term improvements.) A few European armies have had to deal with soldiers' unions, and concentration of expenditures in the nuclear *force de frappe* weakened training and equipment of the French Army. The length of compulsory service—which may have *some* relation to skill levels attained or effectiveness of reservists

[4] Andrew Cockburn, *The Threat: Inside the Soviet Military Machine* (New York: Random House, 1983); Richard Gabriel, *The New Red Legions*, 2 vols. (Westport, CT: Greenwood Press, 1980). For persuasive counterarguments, see James T. Reitz, "Underrating Soviet Might," *Problems of Communism* 32 (November-December 1983), 84-88, and the review by Charles J. Dick in *Survival* 24 (January/February 1982), 44-45.

[5] John Mearsheimer, *Conventional Deterrence* (Ithaca, NY: Cornell University Press, 1983), 171, 183-88; F. W. Von Mellenthin and R.H.S. Stolfi with E. Sobik, *NATO Under Attack* (Durham, NC: Duke University Press, 1984), chaps. 3-5.

[6] For a less categorically critical survey of organizational problems, see David C. Isby, *Weapons and Tactics of the Soviet Army* (London: Jane's, 1981), 61-70.

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mobilized within a few years of discharge—is only nine to fifteen months in most NATO armies; it is two to three years in most Warsaw Pact armies.[7]

Second, in notable past examples, qualitative deficiencies in the enemy's force were correctly recognized, but in the test of war, they turned out to have been overestimated in significance (for example, German contempt for the Soviet Army prior to the invasion of 1941, Israeli and U.S. disparagement of the Arabs prior to October 1973, and the belief of most Western analysts in 1980 that revolutionary fanaticism had so crippled Iran's army that Iraq would slice through it easily). Sociocultural stereotypes or ideological faith in the pervasive inefficiency of the communist system have some validity, but they are risky bases for confidence.

Third, even granting that weaknesses in Soviet weapons are *not* counterbalanced by fewer maintenance problems than those associated with sophisticated NATO tanks and aircraft, and that, pound for pound and man for man, NATO equipment and personnel are superior, Soviet quantitative advantages remain somewhat offsetting. In addition, NATO faces severe demographic pressures that will reduce available manpower, especially in the most important European army—West Germany's.[8] The Soviet Union also faces demographic problems, but they lie in the composition of its force (fewer Slavs and more Asians), and not so much in numbers.

Fourth, the slow and bumbling way in which Soviet commanders won World War II does not support the prospect of a quick Soviet victory in World War III. But is it not a leap of faith to assume that there has been no improvement in the intervening four decades—since the time when the Soviet military was recovering, under fire, from the catastrophic decimation of its professional leadership in Stalin's purges? NATO armies are more efficient than those of the Warsaw Pact but they are not replicas, in doctrine or in competence, of the *Wehrmacht* or the Israeli Defense Force. The Soviet Army has not had much combat experience since World War II, but the same is true of NATO armies. Even for the United States, experience in Vietnam and Korea is not equivalent to the armored warfare that could occur in Central Europe. Available evidence of Soviet performance in Afghanistan does not make a conclusive case that it compares unfavorably with the U.S. performance in Vietnam.

[7] As of 1981, of all the NATO armies based on conscription, only Greece's required two years of service; of all Warsaw Pact armies, only East Germany's and Rumania's required less. Federal Ministry of Defence, "Facts and Figures" (Bonn, 1981).

[8] Anthony H. Cordesman, "NATO Faces Huge Manpower Problems Compared to Warsaw Pact, Studies Show," *Armed Forces Journal International*, December 1983, p. 21.

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Of the four general arguments discussed in this essay, deflation of Soviet military competence may be the most applicable. But the mixed record of past prewar estimates, the issue of *relative* incompetence ("net assessment"), and quantitative differences leave the conclusion about NATO's situation ambiguous. One of the authors who painted a dismal portrait of the Soviet military wrote a subsequent book that attempted a broader net assessment; in it, he concluded that of 60 measures of power, the Soviet military had an advantage over the U.S. in 34 (57 percent), and the United States held an advantage in only 16 (27 percent); the two ranked evenly in the remaining 10 measures.[9] Such studies argue for *less* pessimism about Western conventional capabilities than is prevalent, but they do not argue for optimism *sufficient* for conventional deterrence.

The Promise of Technology

Capitalism produces more dynamic innovation than the authoritarian institutions of the East. Because of the economic and social costs of maintaining high levels of military manpower, the West has relied more than the East on technological substitution and quality of forces. New approaches go further, suggesting that major investments in Emerging Technologies (E.T.)—various "smart" weapons now in development—offer the possibility of using conventional munitions to accomplish many missions previously allocated to tactical nuclear forces. This hope underlies the report of the European Security Study (ESECS), a trans-Atlantic group of establishment security specialists.[10]

Advanced technology may help NATO, but it would be shortsighted to assume that it will solve essential problems. This approach faces big political, technological, strategic, and economic obstacles. NATO's commander and the ESECS report have asserted that the required programs could be funded within real defense budget increases of 4 percent across the board in NATO countries—only about $23 more per capita.[11] This is modest in the context of traditional despair about how overwhelming the Warsaw Pact advantage is, but it is more than the 3 percent that NATO agreed on in 1977, a commitment honored by hardly any of the members. Despite dramatic new public opposition to reliance on nuclear forces, there is no evidence that support for higher military budgets will

[9] Richard A. Gabriel, *The Antagonists: A Comparative Combat Assessment of the Soviet and American Soldier* (Westport, CT: Greenwood Press, 1984), 184-91.

[10] European Security Study, *Strengthening Conventional Deterrence* (New York: St. Martin's Press, 1983).

[11] William Drozdiak, "NATO Weighs Nonnuclear Strategies," *Washington Post*, September 26, 1983, p. A15.

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grow in Europe; even if it did, there would be little reason, in light of past experience, to believe that it would be sustained, or that the Soviets would not invest more in order to recover some of their advantage. European governments are also skeptical about enthusiasm for new technologies because it will mean buying more U.S. systems—a sore point in view of the American domination of the alliance's weapons trade.

Another argument made against plans for new conventional technologies is that the Soviets would not be able to distinguish some of them—particularly ballistic missiles—from nuclear attack systems. If launched against targets deep in Eastern Europe, they might trigger a Soviet nuclear launch-on-warning.[12] Although this issue was aggravated by overzealous technicians who discussed plans for making the "Assault Breaker" system dual-capable (that is, equipping some models with nuclear warheads),[13] it is a problem of degree rather than a change in kind. The Soviets have long faced this question in regard to NATO tactical aircraft that would be flying eastward. Even if new technologies did not aggravate the problem, and even if they bolstered conventional *defense*, they would not increase pure conventional *deterrence* because they blur the nuclear threshold.

History provides a more fundamental reason for caution: it is difficult to know which of a variety of technologies will be the revolutionary ones, and thus how to optimize investment or application in the initial phase of combat. *The crucial effects of technological change on the outcome of warfare are often misunderstood before a war.* The machine gun revolutionized the battlefields of World War I to a degree unexpected before 1914, though the weapon had been available for decades. In the interwar period, many planners believed that strategic bombing of population centers would be a decisive factor; yet, most subsequent disinterested analysis concluded that the impact of bombing on the German war effort was less than anticipated. On the other hand, Allied planners in the 1930s generally underestimated the role of the tank in land warfare and the value of the aircraft carrier (in comparison to the battleship) at sea. In all these cases, it took substantial time *after* the outbreak of war to learn the lessons or adapt new systems to make their application decisive.[14] In the 1980s, we cannot test the overall effectiveness of new

[12] Fen Osler Hampson, "Groping for Technical Panaceas: The European Conventional Balance and Nuclear Stability," *International Security* 8 (Winter 1983-84), 72-76.

[13] Fred Hiatt, "Conventional Weapon May Go Nuclear," *Washington Post*, November 25, 1983, pp. A1, A18-19.

[14] See Karl Lautenschläger, "Technology and the Evolution of Naval Warfare," *International Security* 8 (Fall 1983), 27-30.

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munitions in a manner that might remotely approximate future war—frequent large-scale exercises with repeated massed fires under varying operational conditions—because the weapons are individually too expensive to waste, and "tests" in recent conventional wars may be a risky basis for generalization. After one Exocet sank the H.M.S. *Sheffield* in the 1982 South Atlantic War, the missile was widely touted as a magnificent weapon that might make surface ships so vulnerable as to be nearly obsolete; but when Iraq used larger numbers in the Persian Gulf in 1984, their effectiveness appeared modest. Many of the E.T. programs in the early 1980s are so far only conceptual. Some of the munitions that have been fully developed depend on such a sophisticated sequence of technical interactions—failure of any one of which causes failure of the whole—that a skeptical officer referred to one as the "13 miracle weapon."[15]

In many cases, new weapons offer only a transitory advantage because of the cyclical process by which countermeasures are developed to cope with them.[16] It would be shortsighted to assume that the Soviets will not invent technical or tactical devices to blunt NATO improvements. Soviet emulation might also turn such weapons to the advantage of offensive operations; indeed, E.T. initiatives have already spurred Moscow's interest in undertaking similar programs.[17] If the new weapons proved decisive rather than just helpful, if their advantage was enduring rather than ephemeral, and if they did not become equally available and valuable to the Soviets, they might be the key. But these are too many "ifs"; the historical record of misjudgment about the strategic implications of new technologies is too great to provide grounds for confidence.

Capitalizing on technology can contradict other approaches to improving conventional forces. Analysts have increasingly emphasized the advantages of flexibility and decentralization to provide maximal opportunities for initiative and exploitation of opportunities as they present

[15] Michael R. Gordon, " 'E.T.' Weapons to Beef up NATO Forces Raise Technical and Political Doubts," *National Journal*, February 19, 1983, pp. 365-69; Gordon, "Highly Touted Assault Breaker Weapon Caught Up in Internal Pentagon Debate," *National Journal*, October 22, 1983, pp. 2152-57. For criticism of technological feasibility or doctrinal sensibility of high-tech proposals, see Steven L. Canby, "The Conventional Defense of Europe: The Operational Limits of Emerging Technology," Working Paper No. 55, Woodrow Wilson Center, Washington, DC (April 1984), to be published in *International Defense Review*; and Daniel Gouré and Jeffrey R. Cooper, "Conventional Deep Strike: A Critical Look," *Comparative Strategy* 4 (No. 3, 1984).

[16] For a recent example that also bears on the previous point, see John Vinocur, "Iran Said to Develop Reflector That Fools Exocets," *New York Times*, July 6, 1984, p. 3.

[17] Melissa Healy, "Soviet Generals Enlist in Ranks Favoring Deep Strike Weapons," *Defense Week*, July 16, 1984, p. 7.

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themselves. Some plans for coordinating new hi-tech weaponry, however, rely on intelligence "fusion" centers and further centralization of command, control, and communications (C^3). Soviet military planners already have high incentives for concentrating their attacks on the West's C^3 vulnerabilities. (There is even a more general problem: NATO's "layer cake" organization of corps sectors, which intersperses different national armies on the front line, enhances deterrence politically because it prevents an attack that could engage West German forces alone; but, in the fog of war, it is potentially a C^3 monstrosity.)[18] Further centralization of vital functions in a few locations offers an even higher premium to Moscow for focusing attacks on C^3.[19]

One argument holds that relying on first use is dangerous because tactical nuclear weapons are highly vulnerable to *non*-nuclear Soviet attack.[20] If this line of reasoning assumes that the Soviets could preempt NATO's nuclear weapons by conventional strikes before the weapons are dispersed, then it also implies the general possibility of Soviet surprise in other ways (such as disrupting U.S. debarkation facilities in ports or air terminals, attacks on prepositioned equipment storage depots for U.S. reinforcements, and confounding C^3). Any substantial measure of surprise in the attack undercuts other grounds for optimism about conventional defense. If, even after dispersal, so many tactical nuclear forces were vulnerable that their retaliatory potential would be negated by air attacks, then Soviet airpower should also be rated as highly effective against conventional targets; the West's removal of the tactical nuclear threat would eliminate the current priority target for Soviet air strikes at the outset of war, thus releasing those strikes for allocation against NATO conventional forces.

[18] Some analysts argue the reverse if NATO can emphasize the advantages of prepared positions and eschew large-scale maneuver defense. New U.S. AirLand Battle doctrine, however, does envision more maneuver; with different national forces crossing each others' lines, communication and coordination problems assume larger proportions. This points to a further deficiency. The Warsaw Pact is more standardized and dominated by one nation than is the NATO coalition. In the latter, not only are national equipments diverse—so are operational doctrines! "NATO's problem, therefore is ... [that] there is no unity of policy." Elmar Dinter and Paddy Griffith, *Not Over By Christmas: NATO's Central Front in World War III* (New York: Hippocrene Books, 1983), 41. With France pursuing an independent strategy, it is also uncertain what difficulties might arise in reintegrating French forces under the unified NATO command in wartime, should Paris decide to do so.

[19] On dangers in allowing technology to centralize battle management, see Col. Ruprecht Haasler and Lt. Col. Hans Goebel, "Uneasiness About Technological Process in the Armed Forces," *Military Review* 62 (October 1982), pp. 70-71.

[20] John D. Steinbruner, "Introduction," in Steinbruner and Leon V. Sigal, eds., *Alliance Security: NATO and the No-First-Use Question* (Washington, DC: Brookings Institution, 1983), 3-4.

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III. Force Ratios, Strategy, and Prediction

The margin of the Warsaw Pact's advantage is usually exaggerated; but in terms of quantity, not many analysts—even among those who view NATO's capabilities as sufficient—assert that NATO has *equal* levels of forces. Under some conceivable circumstances—the inclusion of French forces, and a Warsaw Pact attack that occurs without participation of all Eastern European forces and without full Soviet mobilization—disparities might be negligible or even favorable to the West. Such an optimistic scenario aside, Soviet advantages in ground-force firepower, especially tanks and artillery, weight the balance toward the East.[21] Optimistic assessments of NATO's capability generally rest on the fact that, other contextual factors being equal, most analysts agree with Clausewitz's dictum that "*defense is a stronger form of war than attack*";[22] to prevail, the offense must be significantly superior. Under many potential circumstances this would be true in a NATO/Warsaw Pact war,[23] but some plausible conditions throw the point enough into question to preclude confidence.

First, some contextual factors are more likely to be unequal in the initial phase of war than later. Once a war is well underway, available forces are fully alerted, mobilized, deployed, and coordinated; the enemy's novel applications of weapons or doctrine have often been revealed in earlier battles; defending forces have made optimal preparations to take advantage of terrain; and the probability of enemy attack somewhere along the front is not in question among political and military leaders. Under such circumstances, it is unlikely that offensive forces lacking substantial numerical or technical superiority will overcome the natural strategic advantages of the defense, even if they succeed in tactical surprise. In the initial phase, however, the above conditions obtain less often. The general dominance of the defense is less certain under the potential conditions of political hesitancy and military confusion that often affect the victim more than the aggressor at the outbreak of war.

Second, the initial phase is crucial to NATO. In the past, the defender

[21] Barry Posen notes the important point, however, that NATO's far heavier investment in support systems should increase effective combat power (the "dynamic" balance) beyond what is represented in simple comparisons of firepower; otherwise, such investments must be deemed a waste. See Posen, "Measuring the Central European Conventional Balance," *International Security* 9 (Winter 1984/85), 47-88, at 67-70.

[22] Carl von Clausewitz, *On War*, ed. and trans. by Michael Howard and Peter Paret (Princeton: Princeton University Press, 1976), 366 (italics in original); see also Book Six, throughout.

[23] See Dinter and Griffith (fn. 18), 104-21.

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in many cases recovered and won after early defeats, often because there was a cushion of territorial depth or material surplus that made large early losses inconclusive. NATO, however, is committed to a forward defense; falling back to the Pyrenees or returning across the English Channel several years later are impractical options. Even a line stabilized at the Rhine would contradict the firm political basis of alliance planning; so military adequacy of a conventional deterrent cannot rest on that option without a change in higher policy.

Dominance of the Defense?

While they disagree about proper standards of measurement, most optimistic studies agree with pessimistic ones on the notion that the distribution of physical capabilities is the principal issue. Thus, conclusions derived from inductive analysis based on components of military power available to NATO and the Warsaw Pact countries appear more precise or relevant than lessons of past battles that were fought with different sorts of technology and manpower, and on different types of terrain. An *a priori* model can use inputs (such as current weapons and German terrain) that would figure in a NATO/Warsaw Pact engagement, whereas past examples (say, British, French, and German weapons and the French terrain of 1940) are not fully comparable. The *a priori* method, however, depends on recognition, selection, and valuation of variables whose combined interactions have never been tested in war. Such an approach has to be relatively mechanistic. The number of variables it can handle coherently is finite, and the more variables are incorporated, the more analytical accuracy becomes hostage to the subjective values assigned.

War is as much an organic phenomenon as it is mechanistic. It is impossible to observe all its constituent elements or their interactions, much less to simulate them perfectly in advance. Variables not recognized or poorly appreciated before the fact often turn out to be crucial. The historical approach is therefore a useful complement. Whereas the *a priori* method induces the outcome from an aggregation of assumed causal conditions, *a posteriori* reasoning deduces dominant causal conditions from correlations with outcomes. The latter does not illuminate technical specifics of the current calculus, but it can more comprehensively embrace the organic aspects of war, since past outcomes reflect all the interactions of factors, whether or not they are recognized and measurable. The significance of the difference in specific technical or geographic inputs can be mitigated by focusing on correlations in mul-

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tiple cases between victory and two *general* conditions. One is the balance of available forces as it can best be estimated prior to combat: which side, if either, is recognizably superior in deployable power? (This may or may not resemble the actual balance in early battles, depending on the defender's reaction to warning.) The other is the initiative in starting the war: which side is the attacker, which the defender? Comprehensive judgment should utilize the respective advantages of both *a priori* and *a posteriori* analysis, since neither is sufficient for prediction. The former provides the best estimate of *potential* power, which may or may not be realized in battle; the latter is a better basis for estimating the probability that a defender will *realize* his military potential. If either approach suggests powerful conclusions, but the two seem to contradict each other, confidence in the predictability of future cases should be reduced. Let us compare the approaches.

Using a sophisticated model of force interactions, William Kaufmann has calculated that the current balance affords NATO only a 15-20 percent chance of sustaining defense for 15 days against a Warsaw Pact attack after two weeks of mobilization. If NATO raised spending by 3 percent annually for six years, however, Kaufmann's calculations suggest better than 90-percent odds that defense could be sustained for a month—after which the Soviet steamroller would run out of steam because of logistical weakness.[24] In short, NATO is so near the crucial point of balance that 3 percent more effort gains over 70 percent more confidence. Kaufmann and others who support this analytical approach do not claim that it is predictive, but some assert that it provides the best available indicator.[25] As a heuristic guide to force planning and the value of additional military spending, such analysis is indeed valuable. Defense planners cannot control the uncertainties of future scenarios or ensure that political leaders and commanders will make timely decisions that use available capabilities wisely, but they can estimate the changes in capabilities that will affect the odds for success if those decisions are made correctly.

Force planning is not the same as operations planning.[26] The value of *a priori* methods for the former is great, but in regard to the latter

[24] Kaufmann, "Nonnuclear Deterrence," in Steinbruner and Sigal (fn. 20), 88-89. For arguments that question the severity of Soviet logistical problems, see C. N. Donnelly, "Rear Support for the Soviet Ground Forces," *International Defense Review* 12 (No. 3, 1979).

[25] "Though such calculations cannot predict the actual outcome of a war, they do state the best odds that can be assessed in advance on the basis of basic military capacity." Steinbruner, "Alliance Security," in Steinbruner and Sigal (fn. 20), 205.

[26] C. R. Neu, *Planning U.S. General Purpose Forces: Army Procurement Planning* (Washington, DC: Congressional Budget Office, December 1976), 4.

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they may be no more illuminating than retrospection, which gives some insights into the odds of defense, *given* all the uncertainties about whether the right decisions on their mobilization or employment will be made. Victims often do not come as close to optimal use of their capabilities as do attackers. Mearsheimer makes a reasonable case—based on force-to-space ratios, doctrine, and terrain advantages—that even the current balance affords NATO a good chance of holding, *assuming* that it will mobilize and reinforce the front when it detects Soviet preparation.[27] But the record of past cases is overwhelming to the effect that victims seldom respond quickly, fully, or effectively to receipt of strategic warning.[28] To estimate that NATO can hold if it does what it should with what it has is different from answering the inclusive question of what the cumulative odds of defense are if war comes, with all the attendant uncertainties considered. For example, if odds of successful defense are assessed as 75 percent with Mearsheimer's proviso, but odds that the proviso will be fulfilled are 20 percent, the cumulative probability declines to 15 percent.

Taking the historical approach, let us consider whether outcomes of initial battles are highly sensitive to the balance of forces, and whether attackers who lack a large superiority usually fail to win. Table 1 lists the initial phases of major wars since the advent of mechanization and modern airpower. (In case the implications against NATO are skewed by including examples where imbalance was extreme, Table 2 provides a more discriminating comparison.)[29] The variety of *a priori* methods is too great to argue that all such analyses would agree with either table's characterization of which side was superior in the balance. For example, "static" comparison of manpower and weapons would more probably cite Israel as inferior to the Arabs in the prewar balance in all three

[27] Mearsheimer (fn. 5), chap. 6, esp. 166-67.

[28] Richard K. Betts, *Surprise Attack* (Washington, DC: Brookings Institution, 1982).

[29] Table 2 excludes interventions in revolutionary or guerrilla civil wars (Vietnam, Afghanistan), minor or bizarre operations (such as the Argentinian attack on the Falklands/Malvinas and the U.S. invasion of Grenada), and cases in which large modern armored forces were not involved (such as the Tanzanian invasion of Uganda in 1979). The Indo-Pakistani War of 1965 is excluded because it is impossible to determine which side started the war, and which won. The same holds for the Soviet-Chinese skirmishes on the Ussuri in 1969. The basis for most of the categorizations of superiority is obvious. For the Battle of France in 1940, see sources in Betts (fn. 28), 32, and especially Phillip A. Karber and others, "Assessing the Correlation of Forces: France 1940," study for the Office of the Secretary of Defense/Net Assessment and Defense Nuclear Agency (McLean, VA: BDM Corporation, June 1979), which demonstrates the limits of assessments based on the balance of forces. The categorization of Japan v. U.S.A. would be questionable if one focused on the Philippines alone rather than on forces overall, although even there the Japanese force that landed at Lingayen Gulf was only 40,000 men, while MacArthur had at least 65,000 American and Filipino troops. See Louis Morton, "The Decision to Withdraw to Bataan (1941)," in Kent Roberts Greenfield, ed., *Command Decisions* (New York: Harcourt, Brace, 1959), 170.

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TABLE 1

CORRELATES OF SUCCESS[a] IN INITIAL PHASE OF WAR: AN UNDISCRIMINATING COMPARISON

	Balance of Forces	
Initiative	*Attacker Superior*[b]	*Attacker Not Superior*[b]
ATTACKER WON	Germany v. Poland, 1939 U.S.S.R. v. Japan, 1945 N. Korea v. R.O.K., 1950 China v. U.S.A., R.O.K., 1950 Israel v. Egypt, 1956[c] Israel v. Arabs, 1967[c] India v. Pakistan, 1971 Vietnam v. Cambodia, 1978-79	Germany v. France, U.K., 1940 Germany v. U.S.S.R., 1941 Japan v. U.S.A., 1941 Egypt v. Israel, 1973[c]
DEFENDER HELD	U.S.S.R. v. Finland, 1939 Iraq v. Iran, 1980 China v. Vietnam, 1979	Syria v. Israel, 1973[c]

See the text for caveats about inferences.

[a] Success for attacker defined as pushing defender far back in short time; success for defender defined as containing attack at depth considered tolerable in prewar strategic planning.

[b] Measurable net advantage in deployable forces as perceived before war.

[c] See explanation in text and fn. 32.

TABLE 2

CORRELATES OF SUCCESS: SELECTED COMPARISON TO MAXIMIZE INFERENCES IN FAVOR OF THE DEFENSE

	Balance of Forces	
Initiative	*Attacker's Superiority Limited*	*Attacker Not Superior*
ATTACKER WON	Israel v. Egypt, 1956 Israel v. Arabs, 1967 Egypt v. Israel, 1973	Germany v. France, U.K., 1940 Germany v. U.S.S.R., 1941 Japan v. U.S.A., 1941-42
DEFENDER HELD	U.S.S.R. v. Finland, 1939 Iraq v. Iran, 1980 Syria v. Israel, 1973[a] China v. Vietnam, 1979	

[a] See text for explanation of difference in categorization from Table 1.

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cases, whereas "dynamic" analysis, which takes greater account of qualitative differences, would estimate the reverse.[30] Because my critique of *a priori* analysis focuses on optimistic variants that assume qualitative or dynamic advantages for NATO, and because the issue of the analytical basis for conventional deterrence depends on the defender's prewar estimates of the balance,[31] the Arab-Israeli cases are assigned accordingly in Table 1. Also, neither table reflects the significance of other variables that might be crucial. The limitations of the tables do not invalidate them, however, because my inference is also limited; the argument is not that either table warrants high confidence in the offense, but simply that both preclude high confidence in the defense. Several relevant correlations emerge from the tables.

First, irrespective of the putative balance of forces, the defender held successfully in only 4 of 16 total cases (25 percent). In contrast, Table 2 skews the comparison in favor of the argument for the defense by: deleting cases of successful attack in which the margin of superiority was greater than the one the Warsaw Pact would probably enjoy against NATO; retaining Finland and Vietnam, though inconsistent with the previous criterion, because they support the case for the defense; categorizing Israel as inferior to Syria and Egypt in 1973 but not inferior when it was the attacker, in 1956 and 1967; and categorizing the Egyptian and Syrian fronts as two cases in 1973 but as one in 1967, to reduce the proportional incidence of failure of defense. Even under these criteria, which lead to more favorable inferences, the ratio of success to failure for the initial defense is still only 4:6.[32] Second, in Table 1, defenders who lacked discernible superiority held successfully in only three instances (27 percent of the cases where the attacker was superior). In Table 2, though I deleted grossly inferior defenders that failed but retained two that succeeded, inferior defense still failed in 3 of 7 cases. Third, in Table 1, defenders who were *not* inferior succeeded initially in only 1 of 5 cases. In Table 2, which in other respects favors the defense, the ratio is 0 successes to 3 failures.

In a different compilation, based on a larger number of battles (including many after the initial phase of war, thereby diluting the impact of political or doctrinal surprise by the attacker) and a crude index of balance (manpower), T. N. Dupuy reached related conclusions: defend-

[30] On the inverse deficiencies of static and dynamic analysis, see Betts (fn. 28), 13-14.

[31] If qualitative and dynamic factors are included, then whichever side won was by definition superior in reality.

[32] Israeli defense of the Golan in 1973 is categorized as success because the Israelis were not pushed off the Heights, and their initial defense of the Sinai is categorized as failure because the Egyptians penetrated farther than Israeli plans meant to allow; indeed, the Egyptians might have gotten farther yet if they had not voluntarily stopped.

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ers failed in two-thirds of the total cases, and of 13 cases in which *defenders* were *superior*, they *lost* in 12 (92 percent).[33]

Historical support for high confidence in defense is not present even in the favorably skewed record in Table 2. One might find such support in other important variables, but the two general conditions in Table 2—only modest inferiority in forces, and the advantage of defensive posture—are most often cited as the basic grounds for optimism about NATO's chances. Neither of the crude tables proves anything about NATO's capacity for defense, since none of the cases are really analogous. For inferring confidence about defense, however, the table's limitations do not necessarily exceed those of *a priori* models. The epistemological issue is not a contest between "hard" calculations from real inputs and "soft" inferences from history. Firepower scores used in many *a priori* analyses are subjective judgments and, as my previous discussion of the unpredictable effects of new technology suggests, the values assigned to systems not tested in analogous cases may be flawed. Because of these uncertainties, different *a priori* models yield widely divergent assessments of probable outcomes in a NATO/Warsaw Pact engagement; those used in the Pentagon, for instance, often produce less optimism than Mearsheimer's or Kaufmann's. When divergent assessments are compared, the debate about which analysis is more objective degenerates into piecemeal arguments about the selection and subjective valuations of the variables. Most *a priori* analysts are painfully aware of how hard it is to measure military effectiveness before the fact.[34]

A priori models also cannot adequately account for an attacker's strategic creativity, such as successful schemes of maneuver and deception. Sensitivity analysis can posit various stratagems and test the model of defense against them, but successful deception in practice involves, by definition, a variant unanticipated by the victim. History does not demonstrate *how* NATO might fall prey to Soviet creativity, but it does demonstrate that defenders usually *have* faced unanticipated enemy options. *A priori* extrapolation of results from inputs and *a posteriori* interpolation of causes from correlations between inputs and outcomes both are limited or potentially flawed methods,[35] but the former is no

[33] This universe of cases dates back to 1805. Col. T. N. Dupuy, *Numbers, Predictions, and War* (Indianapolis: Bobbs-Merrill, 1979), 14-15.

[34] See Comptroller General, Report to the Congress of the United States, *Models, Data, and War: A Critique of the Foundation for Defense Analyses* (Washington, DC: General Accounting Office, March 12, 1980), esp. 54n, 71-72, 91; and J. A. Stockfisch, *Models, Data, and War: A Critique of the Study of Conventional Forces* (Santa Monica, CA: Rand Corporation, March 1975).

[35] See David Hackett Fischer, *Historians' Fallacies* (New York: Harper Torchbooks, 1970), 120-24; also, H. Stuart Hughes, *History as Art and Science* (New York: Harper Torchbooks, 1965), 4-6.

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more an empirical basis than the latter for the prediction of combat outcomes.

Historically there appear to be few cases in which the initial outcomes in war were nearly as favorable for the defense as *a priori* calculations of the balance of forces should have implied. "Worst case" planning may have pernicious effects in peacetime—it can promote excessive diversion of resources to the military, self-defeating pessimism and risk-aversion that offer the enemy more opportunities for coercion, or destabilizing behavior such as panic or preemptive moves in a crisis—but history indicates that, if war does come, the initial phase may well develop as disastrously for the victim as worst-case estimates would suggest. Why? First, a reactive defense plan cannot cover an infinite number of contingencies; it must focus on a manageable number of the most plausible options available to the enemy, and relegate other problems to an "all else being equal" assumption. Second, attackers facing a strong defense are rarely so stupid as to strike in a "plausible" way for which the victim is prepared; they search for an exploitable option buried in the "all else being equal" assumption.

It is axiomatic among informed analysts that "who would win" in Central Europe depends entirely on the scenario. Aware of the counterproductive aspects of worst-case assumptions, however, some of them implicitly assume that it is reasonable to plan on the basis of scenarios in which uncertainties are randomly distributed between the two sides. In war, however, the initiating party may have more leverage on conditions than does the reactive party. Scenarios can be found that make any model produce defeat for NATO; the attacker's natural incentive is to construct that scenario, to find a strategy that imposes the defender's worst case on him. If the aggressor can find no way around the defense, and is not inclined to suicide, deterrence holds. When deterrence fails, it is usually because the attacker has discovered some combination of stratagems that circumvent the effective elements of the defense. That is the advantage of strategic initiative.[36] Initiative is not all-determinative; but in Tables 1 and 2 it correlates more frequently with success than does "adequacy" of the balance for the defender as might be estimated before the fact. For example, the Israelis' position in the prewar balance with the Arabs was adequate in all three cases, but they performed better than anticipated when they attacked (1956 and 1967) and worse than anticipated when they defended (1973). Defense is indeed dominant when it is fully alerted and unhampered by miscalculation of enemy

[36] For elaboration, see Richard K. Betts, "Conventional Strategy: New Critics, Old Choices," *International Security* 7 (Spring 1983), 144-46.

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intentions or operational doctrine, but that is true more often late in a war than in the first battle.

Sophisticated models of NATO/Warsaw Pact force interactions consider many scenarios, and sensitivity analysis accounts for the impact of numerous uncertainties and options. But it is difficult for a manageable model to account satisfactorily for the synergistic effects of *all* the combinations of strategy, doctrine, and tactics that a bold Soviet attack plan might employ, or for how microlevel anomalies might ramify against conclusions otherwise valid at the macro level. For example, although sophisticated dynamic models can be "tweaked" to cover differences such as variations in terrain and density of forces deployed across the front if response to warning is delayed, the dominant comparison in most models concerns aggregated firepower. But what if the attacker managed to disrupt a particular support such as C^3 in a manner that created imbalance *within* the defensive force structure in order to prevent effective aggregation?[37] Maybe the possibility is negligible that factors or options excluded or obscured in models could be determinative; maybe the analytical techniques that offer optimism about NATO's defense are far superior to those of defense planners in previous wars; maybe the circumstances of past wars are so different that their lessons are not applicable to a future war; maybe Soviet planners are too cautious or uninventive to take risks or devise a surprise attack. These possibilities may be strong enough to maintain deterrence even in the unlikely situation of a Soviet desire to attack. But the number of "maybes" is too large to warrant confidence in the cumulative probability that, *if war occurs*, the match between peacetime planning estimates and the outcome of initial battles will be closer for NATO than for most defenders in conventional wars of recent times.

Uncertainty about chances for NATO conventional *defense* works against hopeless pessimism as well as against confident optimism; how uncertainty affects conventional *deterrence* depends on other questions. Many analysts assume that if uncertainty precludes confidence for the attacker, he will not strike; prudent Soviet planners today probably lack confidence about their forces' ability to overrun Europe. If the Soviets were desperate, however, confidence in offensive success would not be a prerequisite because doubts could be overridden by the perceived intolerable costs of *not* attacking. This point also suggests doubts about

[37] See Dinter and Griffith (fn. 18), 111-12. The significance of long-overlooked C^3 vulnerability has recently been better recognized in analyses of nuclear strategy than in conventional strategy.

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a novel proposal for conventional deterrence, which I discuss in the following section.

Dominance of the Offense?

It would be a mistake to infer from the points discussed above that, if the general advantage of defensive posture cannot assure that NATO could hold, a Soviet offensive would assuredly succeed. Yet some who are impressed with cases in which forces equal or even inferior in troops and firepower succeeded in executing impressive advances (principally the Germans in 1940-1942 and the Israelis in 1967) see greater emphasis on offense as a promising way to improve conventional deterrence. The U.S. military has recently revised its operational doctrine to place more emphasis on offensive maneuver on the ground and on aerial firepower against Warsaw Pact reinforcements far to the rear of the main battle area. The full dimensions of this revision were ambiguous as of mid-1984 because variants promoted by the Army ("AirLand Battle"), the Air Force ("Deep Strike"), and the U.S. commander of NATO ("Follow-on Force Attack") had not been integrated or coordinated with the allies.[38] Though offensive in terms of *tactical* emphasis, and controversial because some critics infer broader offensive intent, these official innovations are not committed to seizing and holding large parts of East Germany and Czechoslovakia in response to a Soviet attack. Samuel Huntington, has, however, proposed such a decisive shift.[39]

The Huntington concept is logically a more potent way to compensate for the degraded credibility of nuclear deterrence. The premise that an offensive posture can be consistent with an inferior force also avoids the political obstacle of the allies' disinclination to increase spending. The concept is dubious, though, in terms of political or operational feasibility. NATO is a coalition that has maintained remarkable solidarity because all members conceive it to be a purely defensive alliance. Offensive military doctrine, though it may be consistent with a defensive policy, is seen by most non-strategists—and thus European political leaders and voters—as contaminating that premise. An attempt to drag allies toward

[38] See Field Manual 100-5, *Operations* (Washington, DC: Headquarters, Department of the Army, August 1982); Boyd D. Sutton and others, "Deep Attack Concepts and the Defence of Central Europe," *Survival* 26 (March/April 1984); Maj. James M. Dubik and Maj. James J. Montano, "FM 100-5: Conceptual Models and Force Design," *Military Review* 64 (July 1984); John L. Romjue, "The Evolution of the AirLand Battle Concept," *Air University Review* 35 (May-June 1984).

[39] Huntington, "Conventional Deterrence and Conventional Retaliation in Europe," *International Security* 8 (Winter 1983-84). See also Huntington, "The Renewal of Strategy," in Huntington, ed., *The Strategic Imperative* (Cambridge, MA: Ballinger, 1982), and "Broadening the Strategic Focus: Comments on Howard's Paper," in *Defence and Consensus: The Domestic Aspects of Western Security, Part III*, Adelphi Paper No. 184 (London: International Institute for Strategic Studies, Summer 1983), 29-32.

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acceptance of conventional retaliation could disrupt NATO's cohesion (and thus degrade deterrence) at least as much as did the Kennedy administration's crusade for conventional defense (which helped to drive France out of the NATO military structure). This danger is obvious in light of the political turmoil produced by NATO's 1979 decision to emplace new missiles in Europe. The alliance is now in political ferment. In the central country, West Germany, there is no longer a firm consensus on security. At such a juncture, external deterrence is best preserved by limiting internal polarization—which means not providing additional arguments to anti-NATO constituencies. "Political infeasibility" should not be a warrant for dismissing radical change (it could be an excuse to avoid any kind of innovation), but it is hard to argue that the political chances of converting NATO to an offensive posture are greater than for securing budgetary increases. Effort should focus first on improving capabilities; if *that* succeeds, perhaps more ambitious proposals for doctrine could be broached. The alliance should learn to walk before it runs.

In purely military terms, the conceptual appeal of retaliatory offensive action confronts doubts about practicality. The Germans and Israelis capitalized on *strategic* initiative, using surprise and striking first against unready opponents. That is a greater compensation for quantitative deficiencies than alleged NATO superiority in tactical initiative and flexibility. Unless the new doctrine aped the Soviets by embracing preemption—which would shatter the alliance and invert the Clausewitzian relationship between policy and strategy—there is no reason for confidence that NATO armies could accomplish, or consolidate, deep penetration of Eastern Europe.

Because of asymmetrical geography, symmetrical NATO and Warsaw Pact doctrines would yield unequal results. Suppose NATO attacks were to concentrate in the southern part of the front in order to punch through the weaker part of the Warsaw Pact line, while the strength of the Soviet attack would be concentrated in the north. If NATO penetrated eastward in the southern part of the front while Soviet armies rolled to the English Channel and cut off the main route of supply and reinforcement for the West (with their own lines of communication remaining intact), the NATO penetration would wither and would eventually be destroyed.[40] In this sense, the advocates of retaliatory conventional

[40] Some of the precedents supporting offense by inferior forces are promising only if one ignores the ultimate outcomes. In a future European scenario, it is likely that a Soviet offensive in the North, given the lack of strategic depth, might resemble the German success of 1940 in France (which was decisive), while a NATO offensive in the south would resemble the German blunder of 1941 in Russia (which was operationally successful but strategically disastrous because it was not decisive). Idealization of the Germans' superior operational

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strategy must be even more optimistic about NATO's capability for forward *defense* than those who argue that it can be confidently accomplished with small improvements.[41] If a successful forward defense is that feasible, and NATO need fear losing no more than a few kilometers across the front, the need for a new doctrine becomes harder to justify. The popular connotations of the word "offensive" support the case for political conservatism (not shaking the underlying NATO consensus); operational asymmetries support the case for military conservatism.

The most telling arguments against offensive conventional doctrine concern crisis instability and what constitutes the Soviet incentive to attack. If the motive is pure aggression, there is no compelling need to compensate with conventional retaliation for the degraded credibility of the nuclear threat in Flexible Response. Moscow would have to gamble not only that Washington would back down from its commitment to escalate, but that London and Paris would, too. Even if the cumulative odds are low that none of the three autonomous nuclear powers would incinerate millions of Soviet citizens, the risk is too high to make the gains worth the potential cost. The exception that could encourage a gamble would be if the Kremlin was desperate, and moderate risk of annihilation was counterbalanced by perceived high risk of intolerable losses if the U.S.S.R. did *not* attack. In such a situation, a NATO capability to invade Eastern Europe would *confirm* the motive behind Soviet attack rather than thwart it.

Few deterrence theorists have grappled seriously with this problem. Most analysts who recognize the possibility of defensive Soviet motives leap to the mistaken conclusion that to reassure Moscow, the West should reduce emphasis on deterrence. Others dismiss the problem; they see calculated aggression as the only threat to be countered, and identify sensitivity to Soviet anxieties as naiveté or appeasement. But aggressive

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style, prevalent now among many reformist analysts of conventional doctrine, often ignores this point. See David Schoenbaum, "The Wehrmacht and G. I. Joe: Learning *What* from History?" *International Security* 8 (Summer 1983), pp. 201-7. If one looks back before the era of mechanized operations, the initial phase of World War I is instructive. The French attacked toward Alsace, but were compelled to pull back when the German sweep westward made their position untenable. And although the French line stabilized at the Marne, the Germans had penetrated much farther west than NATO's forward defense doctrine considers tolerable for a Soviet initiative.

[41] Huntington maintains that NATO's offense would be feasible because its forces would be superior in certain zones as the Soviets would have to concentrate their own forces at other points where they would try to break through. He also argues that the threat of a NATO offensive would encourage the Soviets to weaken their offensive concentrations in order to protect the parts of their line that would otherwise be vulnerable. ("Conventional Deterrence . . . ," fn. 39, pp. 51, 44.) The first claim, however, is based on force ratios on the front that obtain in peacetime, before Soviet reinforcement; these ratios are nearly even, and most analysts focus on the scenario of a reinforced Soviet attack before NATO mobilization is complete—in which case the overall ratios would be far less favorable to the West.

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and defensive motives can coexist; aims that Moscow considers to be legitimately defensive can be genuinely aggressive to the West. Consider the cases in which the Soviets launched conventional attacks in the past half-century. They divided Poland with Germany in 1939; struck Finland in part because of anticipated vulnerabilities in the event of wider war; reincorporated the Baltic states because they were traditionally claimed by Russia; invaded Manchuria at the request of Western allies; crushed actual or incipient revolts in Hungary and Czechoslovakia because they were in the U.S.S.R.'s core buffer zone and the overthrow of any communist regime symbolized the potential for a rollback by capitalism; and invaded Afghanistan to preserve the revolution there and secure a subservient government on their border. To the victims, these brutal actions were indeed aggressive, but in Moscow they were perceived as provoked by threats to rights or assets they already had, or interests that would become endangered if the stakes at the scene of combat were lost.

Circumstances that could induce Moscow to bear the costs and risks of attacking a coalition as powerful as NATO would almost certainly include the belief among Politburo members that vital Soviet interests were in grave danger if they refrained from war. For purposes of maintaining deterrence, the issue of whether this belief was warranted would be irrelevant; deterrence depends not on the intentions of the deterrer, but on the beliefs of the deterree. Ideology encourages Soviet leaders to believe that capitalism is imperialistic, and thus to misperceive the strategic implications of unfavorable developments in a crisis.[42] Although NATO could not pander to Soviet misapprehensions by rolling over belly-up, it would not be in the West's interest to fuel those misapprehensions. If Moscow has fears that its East European empire appears on the verge of crumbling, an offensive doctrine on the part of NATO is more likely to precipitate attack than to deter it.

A posture conceived by the victim as a retaliatory deterrent but viewed by the adversary as a provocative threat is especially dangerous when the posture is vulnerable to preemption. That is what happened after

[42] See Kyung-Won Kim's analysis of the breakdown of international communication in the French Revolution, in *Revolution and International System* (New York: New York University Press, 1970), 30-36 and throughout.

> [V]iewing ideology only in terms of conscious objectives and ultimate values fails to sensitize us to the highly critical role that ideological commitment plays in the perceptual process . . . sharply increasing the chances of international misunderstanding. . . . [D]istorted perception resulting from an ideological conviction is basically an integral part of the ideological commitment, itself, which makes it quite impossible to "correct" the perceptual process. *Ibid.*, 123, 125.

See also Hannes Adomeit, *Soviet Risk-Taking and Crisis Behavior* (London: Allen & Unwin, 1983), 112-21, 220-30, 328-34.

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the U.S. fleet was moved to Pearl Harbor in 1940. As warlords in Tokyo came to feel more desperately squeezed (especially after the oil embargo of 1941), they saw the fleet as a target rather than as a deterrent.[43] A NATO conventional capability based on a credible offensive doctrine would be no less vulnerable to Soviet conventional preemption than forces in a posture for defense; but in a crisis, it would provide greater incentives for Moscow to preempt because the alternative would appear to be a self-defeating cession of the initiative. That is why *nuclear* deterrence theory places highest priority on securing invulnerable forces and avoiding a situation where each side can disarm the other, thus creating irresistible incentives to strike first. Cautious analysts have worried about the dangers in an evolution of force structures that increases counterforce capability on both sides, but as long as East and West retain enough survivable nuclear forces to destroy each other, the military benefits of nuclear preemption pale beside the social costs, even if the prospective political losses are grim. Absolute costs make the relative benefits of a marginal "first-strike bonus" unattractive. In a purely conventional confrontation, however, marginal relative benefits are a more potent incentive because the prospective costs of preemption are far lower and more readily overridden by the perceived costs of inaction. Under the doctrine of conventional retaliation, the logic of the Soviets' cost-benefit calculations varies by 180 degrees, depending on their motives. In one case, the threat of losses in Eastern Europe prevents attack; in the other, it prompts it.

The rationale for a conventional retaliatory NATO doctrine avoids the pitfalls of sole reliance on *a priori* analysis; it does so through historical reference to failure of denial-based deterrence and to cases of operational success that confound assumptions about the superiority necessary for an offensive. Uncertainty about operational feasibility for NATO need not disable the doctrine against pure aggression, since the moderate probability of territorial loss is a more potent disincentive than the higher probability of failure to gain territory, *if* there is no countervailing probability of loss from failure to attack. The pitfalls of *a priori* analysis appear in the political dimension—the assumption of unprovoked Soviet aggression. The only case since 1940 in which the Soviets used conventional war to gain new client states was in World War II, when *they* were retaliating. In every case since then, Moscow struck first in order to preserve client regimes, not create them. The greatest danger for NATO deterrence lies in a twisted Soviet belief—akin to that of the Japanese in 1941—that they face the loss of their empire if they do not

[43] Roberta Wohlstetter, *Pearl Harbor: Warning and Decision* (Stanford, CA: Stanford University Press, 1962), 26, 69n, 80-89.

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strike; NATO military doctrine should contradict such miscalculation, not abet it.

IV. Logic, Evidence, Uncertainty, and Deterrence

The most powerful and elegant theories are parsimonious, logically simple, and empirically clear. It is hard to achieve such results without limiting the number of variables considered, or according the most weight to those that are most measurable. Many deterrence theories focus on military variables—force structure and doctrine—as the constraints that drive political decision. The focus on technical inputs, however, cannot yield a theory of strategy as reliable as that of physics, which it sometimes subtly mimics. Strategic decision does not follow laws of mechanics because risk, misperception, and miscalculation are subjective phenomena. Measurable elements constrain choice, but do not determine it; they may constrain it least in an epochal crisis when apparent choices lie not between war and a palatable peace, but between a set of disastrous alternatives that seem to differ only by degree. Both the value and the deficiency of much deterrence theory lie in the tendency to make the calculus more manageable by depoliticizing it. Deterrence theory often posits political objectives of a deterree as constant, and his strategic intentions in a crisis as a function of the deterrer's capability. That is legitimate for theory; a more inclusive but muddier theory is not necessarily a better theory. But policy cannot be depoliticized for the sake of theoretical cogency. Decision makers are responsible for consequences, and cannot safely rely on parsimonious theory; to hedge against relevant contingencies, powerful policy may depend on inelegant theory. Theory on policy clarifies how to optimize values, which is facilitated by bounding the values at issue. Lest it severely damage some values, intelligent policy decision usually compromises by sub-optimizing many values rather than optimizing a few. That is why the NATO doctrine of Flexible Response remains preferable to any alternative of pure conventional deterrence that might be rationalized by the arguments discussed above.

Confidence in conventional deterrence by defense is unwarranted because denial is inherently a weaker deterrent than punishment—the costs of failure are much smaller. Without a nuclear threat, the weighting of risks is even more tilted in favor of attack if Soviet motives are defensive; the alternative to striking is not maintenance of the status quo, but sufferance of severe losses. If Soviet tanks were stopped by an effective NATO defense, Moscow would be disappointed, but if the tanks broke through and NATO escalated, it could be devastated. It is

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more tempting to gamble against a moderately high probability of denial than against a moderately low probability of devastation. Huntington underlines the point when he notes that, according to Mearsheimer's analysis, conventional deterrence failed in over four-fifths of the cases—and the real record may even be worse.[44]

Confidence in successful defense as a fallback from a failure of deterrence is also not warranted. If it were, one might argue that increased risk of conventional war was a reasonable price if it eliminated the risk of nuclear war. But defense based on *a priori* calculation of an "adequate" balance of forces does not correlate as strongly with success in the early phase of wars in recent military history as does the initiative—the decision to attack rather than to defend. Conventional deterrence by punishment could be a more logical way to deter Soviet aggression, but confidence in it founders because the doctrine would probably further strain an alliance already riven by nuclear anxieties; it would probably fail strategically if it had to be executed; or it would encourage preemption if Moscow felt threatened. Whereas denial capability without retention of nuclear threat would be a necessary but not sufficient condition to deter either an aggressive or defensive Soviet attack, conventional punishment capability would be sufficient but not necessary to deter aggression if the nuclear threat were retained. The deterrent potency of *either* pure conventional defensive or offensive doctrine falters against defensive Soviet motives for war—the former because it may not be strong enough to deter, the latter because it may be strong enough to provoke. A nuclear threat is the best hedge against uncertainty about Soviet motives because, in either case, it raises the risks that counter Moscow's perceived costs of not going to war.

Predictive power is not the only measure of a theory's worth: some theories that are powerful for explaining the past have no utility for prediction.[45] But a plan for allocating resources to conventional military capabilities has to rest on some predictive notion of how alternatives will affect outcomes. The two general approaches from which such notions might be derived have converse deficiencies. Deductions from the past cannot show which investments in future weaponry we should

[44] Huntington, "Conventional Deterrence . . ." (fn. 39), 38. Two of the cases Mearsheimer cites as *successful* deterrence are allied decision making at Munich (despite the fact that Hitler obtained the Sudeten territory and gobbled the rest of Czechoslovakia a year later) and allied decision making between the outbreak of war and the German blitzkrieg eight months later. By this logic, if NATO and the Warsaw Pact went to war, but Moscow waited a while before executing a successful attack, the interim would count as successful deterrence!

[45] Stephen Toulmin, *Foresight and Understanding* (New York: Harper Torchbooks, 1963), 55-56, 108-11.

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make; *a priori* calculation sheds the best available light on what combinations offer the best *potential* payoff. Analyses of technical inputs cannot show whether cabinets and commanders on the defending side will make appropriate decisions about whether, when, and how to deploy capabilities for an initial battle; deduction from past outcomes counsels doubt that they will. Policy-relevant theory has no alternative but to combine the divergent analytical insights and do the best it can, despite ambiguous conclusions, to adduce recommendations that chip away at negative probabilities. In the result, though, uncertainty will override confidence, and uncertainty is more conducive to partially nuclear than to purely conventional deterrence.

Any scheme for pure conventional deterrence fails because, in optimizing hedges against one challenge, it weakens deterrence against another. If not supplemented by threats of nuclear retaliation, it offers less than enough—or too much. The only policy choice that hedges suboptimally against all contingencies is one that combines enhanced denial capabilities and continued threats of nuclear punishment should denial fail; in other words, an incremental rather than absolute shift toward the conventional defense component within the contours of the current doctrine of Flexible Response.

This choice contradicts the intellectual and emotional imperatives that have prompted the resurgence of analysis of conventional strategy: contrasting anxieties about the nuclear element of Flexible Response. One fear is that the escalatory threat is not credible because its suicidal nature would prevent NATO leaders from executing it, so it will not deter the Soviets. The other fear is that the Soviets might attack and that escalation *would* occur. In either case, reliable conventional capabilities are seen as necessary to take up the slack if neither security nor survival are to be compromised. But without high confidence that conventional defense would succeed and that the Soviets would never feel a compelling reason to risk failure in conventional attack, there can be no perfect deterrent. Eliminating the nuclear threat would no more assuredly prevent nuclear war than it would raise the risk of conventional war, unless deterrence were to be forsworn altogether. The price of the least unsatisfactory deterrent (one based on mixed threats) is a residual risk of holocaust. In a world with deterrence but without confidence, nuclear uncertainty remains both the sin and the salvation of doctrine.

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SUBSIDIZING AMERICAN CORPORATE EXPANSION ABROAD: Pitfalls in the Analysis of Public and Private Power

By JOANNE GOWA*

IN the mid-1950s, the Eisenhower administration proposed that the U.S. government subsidize the expansion of American corporate interests abroad. In 1954 and again in 1955, the Republican administration recommended that Congress ease the provisions of the Internal Revenue Code applicable to income earned abroad in order to encourage American multinational corporations (MNCs) to increase their investments overseas. The MNCs and exporters opposed specific components of the administration's tax package, however; Congress therefore refused to endorse it. By the end of its tenure in office, the administration itself retreated from its attempts to subsidize private capital exports and began to advocate a crackdown on tax abuse by American multinational firms.

In this article, I will analyze the origins, evolution, and outcome of the Eisenhower administration's efforts to change the corporate income tax code. In examining the administration's initiatives, I will explore in microcosm the relationship of public and private power to the setting of official U.S. government policy regarding private American foreign investment in the postwar period.

The analysis makes it clear that the promotion of private capital exports had become an issue of marginal significance to the U.S. government as early as the mid-1950s. Embedded within this conclusion is an important methodological argument: failure to attend systematically to basic principles of power analysis can seriously skew efforts to elucidate the sources of postwar U.S. policy regarding the overseas expansion of

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American firms. Although caution is indicated because the analysis is based on a single case, the argument would seem to apply to the foreign policy cases that fall between what William Zimmerman refers to as the "pole of power" and the "pole of indifference."[1]

The consequences attributed to private capital exports, as well as their causes, have engaged the interest of political scientists, historians, and economists, and have contributed to an impression in some quarters that U.S. policy on the issue was a high-priority concern of the federal government in the decade after World War II. Foreign direct investment—that is, investment in economic assets abroad that involves control of those assets—has been linked, for example, to the rise and decline of hegemonic powers;[2] to the pattern of development and underdevelopment characteristic of the Third World;[3] to the rise of international tensions and the outbreak of systemic wars; and to the survival of capitalism in the advanced industrialized states.[4] A belief in the existence of one or more of these links has prompted some analysts to conclude that the promotion of private capital exports was a central preoccupation of the U.S. government. William Appleman Williams argues, for example, that the principal objective of U.S. foreign policy during the last century has been to maintain an "open door" abroad for the export of U.S. capital and goods.[5]

Although most analysts do not jump either as quickly or as far to their conclusions as Williams does, the magnitude of the consequences attributed to foreign direct investment and debate over the origins of the cold war tend to suggest that the issue of capital exports was high on the agenda of U.S. foreign policy decision makers during the postwar period. I shall argue, however, that by the mid-1950s the promotion of private foreign investment had moved to the periphery of U.S. govern-

[1] Zimmerman, "Issue Area and Foreign-Policy Process: A Research Note in Search of a General Theory," *American Political Science Review* 67 (December 1973), 1204-12. For a discussion of this point, see below.

[2] "Although foreign investment is not the primary cause of the shift in the locus of industrial power from core to periphery," states Robert Gilpin, "it both accelerates this tendency and tends to abort any effort to reinvigorate the core's industrial base. . . ." Gilpin, *U.S. Power and the Multinational Corporation: The Political Economy of Foreign Direct Investment* (New York: Basic Books, 1975), 77.

[3] The literature ascribing either positive or negative effects (or both) to the operation of MNCs in the Third World is vast. For a careful review and assessment, see C. Fred Bergsten, Thomas Horst, and Theodore H. Moran, *American Multinationals and American Interests* (Washington D.C.: Brookings, 1978), chap. 10.

[4] The links among advanced capitalist economies, foreign investments, colonial conquests, international tensions, and war are the focus of Lenin's analysis of imperialism. V. I. Lenin, *Imperialism, The Highest Stage of Capitalism: A Popular Outline* (New York: International Publishers, 1939).

[5] William Appleman Williams, *The Tragedy of American Diplomacy*, 2d ed. (New York: Dell Publishing Co., 1972).

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ment concerns. Using data derived from materials in the Eisenhower Library and from congressional hearings, reports, and other public documents, I conclude that efforts to expand U.S. corporate activities abroad did not command much attention from the Eisenhower administration.

This dearth of official U.S. interest creates an opportunity to observe the problems that ensue when principles fundamental to power analysis are not applied to studies of U.S. foreign policy determinants. An examination of the origins of the Eisenhower proposals reveals a problem frequently encountered and explicitly discussed in foreign policy analyses: the coincidence of interests of the administration and the MNCs renders futile any effort to distinguish sharply the roles played by each in the decision to seek tax incentives. Less familiar and less frequently discussed are the analytical problems that arose when, for example, conflicts of interest occurred between the Eisenhower administration and the MNCs as the tax proposals were introduced in Congress. The ability of private corporate interests to thwart passage of the administration's tax package is consistent with two very different arguments: the more conventional interpretation that private interests prevail over public ones when the two diverge, or the less conventional argument that private preferences prevail where public preferences are only weakly held. I maintain that the manifestly effective exercise of U.S. corporate power evident in the present case is actually an epiphenomenon of the Eisenhower administration's lack of intense interest in the whole area of foreign direct investment.

Explanations of postwar U.S. foreign investment policy frequently do not attend systematically to variations in the preference intensities of the American government and the MNCs across time periods and across issues. This is so despite the insistence of power analysts that without such attention, no accurate attribution of power can be made. As Robert Dahl has noted, manifest or observable power can correspond very imperfectly to potential power when an actor is unwilling to commit his resources to influence the outcome of a particular situation. In any attempt to infer the distribution of power resources from outcomes, it is critical, therefore,

> to distinguish between the past or current influence of a particular actor within some scope of decisions, his probable future influence, and his *maximum potential influence* if he were to use *all* his political resources within that scope of decisions. An actor's current influence in any given scope always (or nearly always) falls short of his maximum potential influence.[6]

[6] Dahl, *Modern Political Analysis*, 2d ed. (Englewood Cliffs, N.J.: Prentice-Hall, 1970), 28; emphases in original.

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The Eisenhower case demonstrates that, at least for some time periods and with respect to some issues, variations in the intensity with which preferences are held can produce outcomes that may not accurately reflect the balance of power prevailing between public and private interests as determinants of overall U.S. foreign policy toward capital exports. The visibly greater weight wielded by multinational firms in this case is a product in large measure of the much less visible unwillingness of the administration to commit its resources to altering the fate of its tax proposals. The decisive factor in the administration's inability to prevail in Congress was not its lack of power resources that were adequate to the task, but its failure to activate its resources.

In short, I argue that "force activation" models ought to supplant the "basic force" models that commonly frame causal analyses of U.S. foreign direct investment policy.[7] Analyses that assume consistently intense preferences on the part of MNCs—or that acknowledge variability in the MNCs' preferences, but slight variations in the U.S. government's preferences[8]—should in many, but not all,[9] cases be supplemented by

[7] See James G. March, "The Power of Power," in David Easton, ed., *Varieties of Political Theory* (Englewood Cliffs, N.J.: Prentice-Hall, 1966), 39-70. Basic force models, notes March, "assume that the components of the system exert all their power on the system, with choice being a direct resultant of those powers" (p. 50). Force activation models, however, "assume that not all the power of every component is exerted at all times" (p. 55). The latter assumption, March argues, corresponds more closely to social realities, although force activation models have their own problems:

> They suffer from their excessive a posteriori explanatory problems. If we observe that power exists and is stable and if we further observe that sometimes weak people seem to triumph over strong people, we are tempted to rely on an activation hypothesis to explain the discrepancy. But if we then try to use the activation hypothesis to predict the results of social-choice procedures, we discover that the data requirements of "plausible" activation models are quite substantial (p. 61).

Robert O. Keohane employs the force activation/basic force distinction in assessing hegemonic stability theory. See Keohane, "The Theory of Hegemonic Stability and Change in International Economic Regimes," in Ole R. Holsti, Randolph M. Siverson, and Alexander L. George, eds., *Change in the International System* (Boulder, CO: Westview Press, 1980), 131-62.

[8] Some scholars are sensitive to variations in private preferences—Joyce Kolko and Charles H. Lipson, for example—but tend to slight the importance of variations in the U.S. government's interests across issue areas and time periods. According to Kolko, "the condition of the general economy" is a factor in determining whether "the dominant sector of American capitalists ... will variously be an active or passive force in policy making" (p. 7). She also notes, in *America and the Crisis of World Capitalism* (Boston: Beacon Press, 1974), 23:

> The pressure[s] for trade ... with the U.S.S.R. and China existed in the ruling class for some years. They did not become of overriding urgency, however, until the crisis in the U.S. economy and in world trade and investment had reached a critical stage in the summer of 1971.

In testing the hypothesis that "U.S. Government policies to protect direct foreign investments generally conform to the predominant preferences of the most vitally affected large corporations" (p. 396), Lipson found it necessary to qualify the premise so that the "relevant preferences were those held with sufficient intensity and prospect of individual gain to evoke active expression by the largest multinational firms" (p. 416). Though repeatedly noting the low level of interest manifested by the U.S. government, Lipson does not qualify his conclusion to take this factor into account—apparently because he views the government's

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empirical investigations of the extent to which the preferences of both varied in ways that affected the desire and ability of each to influence U.S. policy toward private capital exports.[10] Data of this kind may well support arguments that the U.S. government has had more freedom of maneuver in foreign investment policy than is suggested by radical left analyses in particular. Strong conclusions about the determinants of U.S. policy in this issue area must await more rigorous applications of principles of power analysis than have been used to date.

The next section of this paper supplies the information on the Internal Revenue Code necessary to understand the case at hand. This background is useful not only in the context of the 1950s, but also in the context of the 1970s and 1980s: among other things, it renders intelligible the attack by organized labor on the corporate tax code in its recent campaign against U.S. direct investment abroad.

The U.S. Tax Code, American MNCs, and Eisenhower's Proposals

In 1954 and again in 1955, President Eisenhower recommended a liberalization of the two principal provisions of the corporate income tax code that applied to income earned abroad by U.S. firms: he proposed a broader application of deferral and of the foreign tax credit. He also advocated a reducton in the tax rate imposed on foreign earnings and a tax credit for individuals with shares in certain trusts with substantial investments abroad.

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interest in investment protection as influenced heavily by the MNCs themselves (p. 419). See Lipson, "Corporate Preferences and Public Policies: Foreign Aid Sanctions and Investment Protection," *World Politics* 28 (April 1976), 396-421.

[9] For example, in asserting that MNCs have consistent, intense foreign policy preferences, Theodore H. Moran is on safe ground because he carefully circumscribes the foreign policy arena in which he contends MNCs maintain such preferences:

> There *is* something fundamental to American corporate capitalism ... that creates strong pressures for foreign investment. As long as American corporations exercise their virtues of inventiveness and aggressiveness, their government will feel intense, even frantic pressures to create and preserve an international system that facilitates foreign economic expansion.

Moran, "Foreign Expansion as an 'Institutional Necessity' for U.S. Corporate Capitalism," *World Politics* 25 (April 1973), 369-86, at 386; emphasis in original.

[10] Stephen Krasner's analysis of U.S. policy toward raw materials investments of its nationals abroad implicitly—and sometimes explicitly—considers preference intensities of both public and private actors. See Krasner, *Defending the National Interest: Raw Materials Investments and U.S. Foreign Policy* (Princeton: Princeton University Press, 1978).

Preference intensities are also assumed to influence policy processes and outcomes in Pat McGowan and Stephen G. Walker, "Radical and Conventional Models of U.S. Foreign Economic Policy Making," *World Politics* 33 (April 1981), 347-82, and in Robert T. Kudrle and Davis B. Bobrow, "U.S. Policy toward Foreign Direct Investment," *World Politics* 34 (April 1982), 353-79.

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The legislation establishing the U.S. corporate income tax in 1909 provided that foreign taxes, like state and local taxes, could be deducted from income liable to federal taxation. Only in 1918, when corporate tax rates had increased to 12 percent, did Congress—apparently in response to the request of only one witness testifying before it[11]—agree that foreign income taxes could instead be credited, or offset dollar for dollar, against U.S. tax liabilities.[12] To limit the revenue losses that might occur under this crediting system, Congress in 1921 mandated that a credit for foreign taxes could be allowed only to the extent of the U.S. tax on the same income; beginning in 1932, Congress stipulated either a so-called per country and/or overall limit on allowable tax credits.[13] President Eisenhower proposed to broaden the types of foreign taxes creditable against U.S. income tax liabilities and to abrogate the overall limit then in effect.[14] Critics later charged that the national welfare would have been better served by a return to the deduction system and a decrease in foreign investment.[15]

Eisenhower also recommended that a wider range of foreign earnings be deemed eligible for deferral. Under the U.S. tax system, domestic corporations with subsidiaries abroad—corporate units organized and operated according to the laws of a foreign country—are allowed to defer U.S. income taxes on profits earned overseas until that income is

[11] For a discussion of the introduction of the tax credit, see Lawrence B. Krause and Kenneth W. Dam, *Federal Tax Treatment of Foreign Income* (Washington, D.C.: Brookings, 1964), 28.

[12] On the theory that income taxes are borne by the corporation and—unlike sales, excise, value-added, and other taxes—cannot be passed on to the consumer, only foreign income taxes are eligible for a U.S. tax credit. There is, however, no empirical evidence that supports the underlying theory about the incidence of corporate taxes. See Bergsten and others (fn. 3), 167.

[13] Under the per country limitation, the tax credit is restricted to the amount of U.S. tax on net income from each foreign country; under the overall limit, it is restricted to the amount of U.S. tax paid on aggregate net income from all foreign countries. See Thomas E. Jenks, "Taxation of Foreign Income," *George Washington Law Review* 42 (March 1974), 537-56.

[14] Taxpayers were to be eligible to claim a tax credit either as provided in existing legislation or for a "principal tax" levied by a national government. The elimination of the overall limit was intended to raise corporate tax credits by preventing losses in one country from reducing the allowance for taxes paid in other countries. See U.S., Congress, Senate Committee on Finance, *The Internal Revenue Code of 1954, Hearings, Part 1* [hereafter cited as *Internal Revenue Code of 1954, Hearings*], 83d Cong., 1st sess., April 7-8, 1954, p. 62. Critics charged that, in practice, the "principal tax" concept would be more restrictive than existing law. See U.S., Congress, Senate, Committee on Finance, *Internal Revenue Code of 1954, Report to Accompany H.R. 8300, A Bill to Revise the Internal Revenue Laws of the United States* [hereafter cited as *Senate Report 1622*], 83d Cong., 2d sess., June 1954, S. Rept. 1622, pp. 104-05.

[15] For a discussion of the merits of a change to a deduction system, see Peggy B. Musgrave, *Direct Investment Abroad and the Multinationals: Effects on the United States Economy*, prepared for the use of the Subcommittee on Multinational Corporations of the Senate Committee on Foreign Relations, 94th Cong., 1st sess., August 1975.

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repatriated to the United States. The ability of foreign subsidiaries to defer taxes until income is repatriated biases corporate choices toward foreign rather than domestic investment because it effectively operates as "an interest-free loan of cash from the government"[16]—although that was not the original intent. When the Eisenhower administration entered office, U.S. corporations with branches abroad were not entitled to defer taxes on the income of those branches; that income was taxed as earned. Eisenhower urged that branches be permitted to defer taxes as well.

The Internal Revenue Code also contains several provisions added by Congress over the years in response to pressure exerted by investors in particular regions of the world. Of relevance to this case was the 1942 decision to grant to so-called "Western Hemisphere Trade Corporations" (WHTC) an effective tax rate reduction of 14 percent: domestic corporations conducting virtually all their operations in Latin America were exempted from the excess profits tax which Congress imposed that year on other corporations in order to raise revenue for World War II.[17] In 1954 and 1955, the Eisenhower administration recommended that, with some modifications, the WHTC provisions be generalized to extend a 14-point reduction in tax liabilities to foreign investors anywhere in the world.

Explaining the Eisenhower Proposals

Origins

The Eisenhower administration's decision to support tax incentives for American MNCs is a classic example of an overdetermined outcome that, in this case, thwarts efforts to distinguish between private and public interests as determinants of U.S. foreign policy objectives. The initiative cannot be attributed exclusively either to the power and interests of the administration or of the MNCs: public and private interests and power were inextricably intertwined. It was a response to the government's interests in increasing private capital exports as well as to

[16] Stanley S. Surrey, Paul R. McDaniel, and Joseph A. Pechman, eds., *Federal Tax Reform for 1976, A Compendium* (Washington, D.C.: Fund for Public Policy Research, 1976), 77.

[17] In 1955 congressional testimony, Ray Blough recalled the origins of the WHTC legislation.

> I was in the Treasury at the time . . . , and my recollection is that there were a very few specific corporations which had particular financial problems, and which were represented by some pretty influential people, and Congress . . . the matter has been rationalized since then into something different, but if my memory serves me correctly, that was the actual basis for it in the first place.

U.S., Congress, Joint Committee on the Economic Report, Subcommittee on Tax Policy, *Federal Tax Policy for Economic Growth and Stability, Hearings*, 84th Cong., 1st sess., December 5-9 and 12-16, 1955, p. 624.

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pressures from multinational corporations to narrow the range of the government's involvement in economic development abroad. The measure thus bears the imprint of both public and private interests, but the evidence does not allow any conclusion as to the distribution of power between them.

The belief that private foreign investment and U.S. power were positively related prompted officials of the Eisenhower administration to support the tax package. Although the Truman administration had also recommended tax incentives for foreign direct investment,[18] the immediate precipitant of the Eisenhower proposals seems to have been the recommendation, in January 1954, by the bipartisan Commission on Foreign Economic Policy that tax incentives ought to be employed to encourage private capital outflows.[19] The responsiveness of administration officials to the commission's recommendation was in part the consequence of their perception that an increase in investments abroad would increase the power of the United States in the international system in a variety of ways: by inhibiting the development of communist systems elsewhere; by strengthening the U.S. economy; and by reinforcing the Western alliance.

Some administration officials believed, for example, that U.S. private investment in other countries would tend to encourage these states to adopt free market principles and, as a consequence, to ally themselves with the West. The Council of Economic Advisers stated in its annual report for 1955 that

> our own interest clearly calls for a policy that will in time extend into the international field those principles of competitive enterprise which have brought our people great prosperity with freedom. Against the communist ideology of the omnipotent state, owning all means of production

[18] As part of his Point Four program, President Truman recommended in early 1950 that Congress allow branches to defer taxes; permit a foreign estate tax credit; liberalize requirements for subsidiaries eligible to claim tax credits; liberalize residence requirements; and decrease ownership requirements. See the discussion in Randolph Sherfy, "Background of General Policy," in *Taxation of Foreign Income by the United States and Other Countries* (Princeton, N.J.: Tax Institute of America, 1966), 231. The focus of both the Truman and the Eisenhower recommendations was on foreign direct rather than portfolio investment. Direct investment, representing actual control of operations abroad, was believed to be more beneficial to LDC development than portfolio investment, because the former transferred technology and managerial expertise as well as capital. Portfolio investment—ownership of assets abroad without a controlling interest in those assets—also had a legacy of defaults in the interwar period that left American investors leery of sending capital abroad in that form.

[19] The commission, known informally as the Randall Commission (after its chairman, Clarence Randall) had been organized in 1953 as part of a congressional-executive compromise on the Reciprocal Trade Act. Composed of members of industry, labor, and Congress, the commission was charged with recommending an overall foreign economic policy for the United States. See U.S., Commission on Foreign Economic Policy, *Report to the President and Congress*, January 23, 1954.

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> and dominating all economic activity, the United States holds forth the ideals of personal freedom, private property, individual enterprise and open markets. In the long run, other countries are far more likely to rally to liberal ideas if we take the steps within our own power to encourage them to join us in mutually beneficial economic intercourse. Hence, our trade and investment policies affect our ability to increase the solidarity of the Free World.[20]

It was also believed that increased foreign investment would strengthen the U.S. economy. It would allow a reduction in foreign aid, and thereby help to achieve a balanced federal budget—an objective viewed as vital to the U.S. economy and to the country's security.[21] President Eisenhower himself noted in 1953 that,

> through increasing international trade and stimulating in every practical way the flow of private investment abroad, we can strengthen the free world, including ourselves, in natural and healthy ways. By so doing, we can lessen and ultimately eliminate the heavy burden of foreign aid which we now bear.[22]

Increased foreign investment was expected to bolster the U.S. economy in several other ways. Harold Stassen, then director of the Foreign Operations Administration, maintained in 1954 that "the economic welfare of the United States is directly advanced by increased movement abroad of sound private investment." If done wisely, Stassen observed, foreign investment would increase the level of national income and employment, and of raw material supplies.[23] Stassen also argued that among the "manifold" benefits "to be derived from expanding [the] volume of foreign investment over the next few years" is "an outlet for those types of machinery and equipment which until recently had been devoted to providing the tools for re-equipping our Armed Forces and those of our allies."[24]

[20] U.S., White House, *Economic Report of the President*, January 20, 1955, p. 52. As we shall see, some members of the administration were more skeptical than the CEA on this point.

[21] The survival of the free world depends on the maintenance by the United States of a sound, strong economy. For the United States to continue a course of Federal spending in excess of Federal income will weaken and eventually destroy that economy. As rapidly as is consistent with continuing our leadership in the free world, and barring an emergency, the United States will annually balance its Federal expenditures with its Federal income.
National Security Council Meeting, March 31, 1953, "Condensed Statement of Proposed Policies and Programs," p. 1, Ann Whitman Series, NSC Series, Eisenhower Library.

[22] Letter, Dwight D. Eisenhower to Vice President Nixon, May 1, 1953, Reciprocal Trade Agreement File, Ann Whitman Series, Administration Series, Eisenhower Library.

[23] Stassen, "The Case for Private Investment Abroad," *Foreign Affairs* 32 (April 1954), 402-15, at 407.

[24] U.S., Congress, Joint Committee on the Economic Report, *January 1954 Economic Report of the President, Hearings*, 83d Cong., 2d sess., February, 1-5, 8-11 and 15-18, 1954, p. 197.

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Increased private capital exports from the United States, together with increased trade, would, it was believed, tie members of the Western alliance into an inextricable web of interdependence. If the United States did not increase either its capital exports or its merchandise imports, warned several administration officials, there was a danger that other countries would seek ties that were inimical to U.S. security interests. Rumors of a lag in the process of gaining congressional adherence to a liberalized U.S. trade program prompted Lincoln Gordon, chief of the Mutual Security Agency's London mission, to advise the White House that any delay would be dangerous:

> There is growing political pressure here for abandoning the whole line of dollar-sterling cooperation and expanding Free World trade generally, turning instead to the organization of the non-dollar world for maximum self-sufficiency and making the best bargain they could for dollar supplies that could not be dispensed with. One element in this pressure is a readiness in some quarters to expand trade with the Soviet bloc and China, especially if the prospects for an increased dollar export seem poor.[25]

In a harsh indictment of the relatively weak recommendations issued by the Commission on Foreign Economic Policy, Department of Defense officials reminded the administration that U.S. security objectives were "the fundamental reasons for close economic relationships with foreign countries." DoD officials argued that economic interdependence and a reliable U.S. alliance system were mutually supportive. They pointed out that

(a) The United States needs allies in the existing struggle.
(b) Such allies should be as strong, economically and militarily, as possible. But, strong or weak, they must be tied as closely as possible to the United States.
(c) Allies are most dependably tied to us when there exists mutual trade resulting in closely knit spheres of mutual economic interest.[26]

The Defense Department's argument resonated particularly well with Eisenhower's strongly held belief that American prosperity and security were critically dependent on close cooperation with other states.[27]

[25] Letter, Lincoln Gordon to Gabriel Hauge, June 24, 1953, p. 1, Commission on Foreign Economic Policy File, Official File, White House Central Files, Eisenhower Library.

[26] "Preliminary Department Views on the Randall Commission Report" (n.d.), p. 1, Commission on Foreign Economic Policy File, Official File, White House Central Files, Eisenhower Library.

[27] Interdependence among nations was a prominent theme in what has been described as Eisenhower's effort to create a "corporate commonwealth" at home and abroad. The President's effort was intended, according to Robert Griffith, "to resolve what he saw as the contradictions of modern society and to create a harmonious corporate society without class conflict, unbridled acquisitiveness, and contentious party politics." Griffith, "Dwight D.

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Thus, the internal and public record of the Eisenhower administration suggests that its efforts to subsidize the expansion of American multinational corporations were based on the beliefs of many of its officials that an increase in corporate investment abroad would increase U.S. national power. Early in the Eisenhower administration, the dominant assumption on the issue of foreign investment seems neatly summarized by Robert Packenham's characterization of postwar U.S. foreign aid policy: "All good things go together."[28] As applied to foreign investment, the prevailing belief held that increased capital exports would increase global welfare as well as U.S. raw material supplies, employment and income levels, and national power.

Multinational and other corporate interests also played a role, however, in the administration's decision to encourage private foreign investment. Although seemingly paradoxical, private corporate influence on the administration's decision is most visible at some distance from it—when it is examined, not within the narrow parameters of the tax decision itself, but instead within the context of the administration's overall foreign economic policy.[29] The tax incentives and the promotion of private capital exports were integral elements of the administration's broader plan to substitute market flows of goods, services, and capital for government aid to economic development abroad. Although the "trade not aid" strategy derived from the preferences of administration officials for free markets and balanced budgets,[30] it also responded to intense pressure from the private sector to eliminate large governmental capital flows.

Corporate objections to foreign aid derived from the belief that government assistance provided an undesirable option to the less developed countries: they would be able to rely on public rather than on private capital for their economic development. The more public aid available, the more onerous would be the terms other countries could impose on

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Eisenhower and the Corporate Commonwealth," *American Historical Review* 87 (February 1982), 87-122, at 88.

[28] Packenham, *Liberal America and the Third World: Political Development Ideas in Foreign Aid and Social Science* (Princeton: Princeton University Press, 1973).

[29] For a comprehensive discussion of Eisenhower's foreign economic policy based largely on primary sources, see Burton I. Kaufman, *Trade and Aid: Eisenhower's Foreign Policy, 1953-61* (Baltimore: The Johns Hopkins University Press, 1982).

[30] Kaufman makes clear that "trade not aid" would eventually evolve into a trade *and* aid strategy, as the administration began to appreciate the limits inherent in relying on private trade and investment to promote economic development abroad. *Ibid.*, esp. chap. 3.

[31] An excellent analysis of the pressures shaping U.S. foreign aid policy in the two decades after the war is in David Baldwin, *Economic Development and American Foreign Policy, 1943-62* (Chicago and London: University of Chicago, 1966). For Baldwin's reference to beliefs about the danger to private capital posed by government aid, see pp. 52-53.

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private capital investments from abroad. Also current in the corporate community was the belief—derived from a particular interpretation of the breakdown of international finance in the interwar period—that large official capital flows could undermine the capacity of foreign countries to service their debts, and thus place at risk not only public but also foreign private capital that had been invested in those countries.[31]

In a comment typical of corporate opinion in the mid-1950s, the counsel to the Board of Directors of the National Foreign Trade Council strongly endorsed a reduction in foreign aid and hailed the benefits to private investors abroad that would thereby ensue. "There is an inevitable compulsion in economic facts," observed the NFTC counsel in a written report:

> Countries which demand development beyond the capacity of their own capital resources must frankly accept the necessity of importing venture capital, and provide the inducements necessary to attract it. The greatest service our government can perform for investment abroad is to allow this compulsion to produce its natural effect.[32]

Although recognizing that economic assistance might occasionally be useful, Emilio G. Collado, treasurer of the Standard Oil Company of New Jersey, largely echoed the NFTC's sentiments:

> We have failed to give sufficient emphasis to the actual and potential contribution of private enterprise in those countries in whose economic development we are particularly interested. . . . [B]y reducing economic pressure on foreign governments, aid may delay removal of obstacles to investment.[33]

In addition to joining the chorus of corporate, public, and congressional demands for reduced foreign aid and increased reliance on private enterprise, American multinational corporations also expressed particular interest in tax incentives to enable them to expand their operations overseas.[34] A Department of Commerce survey carried out in 1952 asked its corporate respondents to indicate changes that they believed would lead to an increase in foreign investment by U.S. firms. "By far the

[32] Charles R. Carroll, *Private Investments Abroad* (New York and Washington: American Enterprise Institute, 1959), 80.

[33] U.S., Congress, House, Committee on Ways and Means, Subcommittee on Foreign Trade Policy, *Private Foreign Investment*, Hearings [hereafter cited as House, *Private Foreign Investment, Hearings*], 85th Cong., 2d sess., December 1-5, 1958, p. 342.

[34] The corporations were not alone in their opposition to continued government aid. "Public sentiment inside and outside the Congress" the report of a 1954 conference of economists observed, "has been growing steadily stronger in favor of terminating virtually all aid except military items." See Klaus Knorr and Gardner Patterson, eds., *A Critique of the Randall Commission Report on the United States Foreign Economic Policy*, Center of International Studies, Princeton University, Research Monograph (Princeton 1954), 35.

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largest number of companies," reported the survey researchers, "indicated that changes in either the United States or foreign taxes would be most important in making more companies interested in foreign investment."[35]

In addition to their natural interest in tax breaks, U.S. multinational corporations perceived in the administration's tax initiative an opportunity to remove the government from the foreign aid business. The Eisenhower administration, for its part, pursued the tax issue because of the link it perceived between increasing U.S. private foreign investment and increasing U.S. power in the international system. There is, in short, no dearth of reasons to explain why, in the mid-1950s, the administration advanced the idea of tax incentives to encourage increased private capital exports. The surfeit of plausible explanations defies any effort to distinguish sharply between the roles played by public and private interests in the origins of the effort to subsidize U.S. corporate expansion abroad. However theoretically appealing it would be to identify either public or corporate actors as the prime movers behind the subsidy attempt, this case suggests, instead (at least to this point) that Eugene Staley was correct in the argument he advanced half a century ago that

> it would be a mistake . . . to imply that a clear-cut distinction can be made between . . . the use of private capital as a tool of diplomacy and . . . the use of diplomacy as a tool of private capital. The foreign policies of states and the foreign investments of their citizens mutually influence and condition one another.[36]

Evolution: The Tax Issue in Congress and After

When the President's proposals were submitted to Congress, many representatives of MNCs and other corporations testifying before House and Senate committees criticized them as being seriously inadequate to achieve their purported objectives. The refusal by Congress to endorse the administration's proposals might be interpreted as indicative of the

[35] E. R. Barlow and Ira I. Wender, *Foreign Investment and Taxation* (Englewood Cliffs, N.J.: Prentice-Hall, 1955), 111. The interest expressed by MNCs in tax incentives may, however, have been an artifact of the questionnaire's design. See the comments of Barlow and Wender themselves, pp. 110-27.

[36] Staley, *War and the Private Investor: A Study in the Relations of International Politics and International Private Investment* (Garden City, N.Y.: Doubleday, Doran, 1935), 358. Staley was primarily concerned with the relationship of private capital, the state, and the outbreak of war. With respect to that relationship, Staley maintained that "international friction has been a good deal more frequent and dangerous where private investments have been pressed into service as instruments, tools, of a larger political purpose which the instruments themselves did not originate" (xv-xvi).

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weight exerted by these private economic interests. It would be more accurately interpreted, however, as an indication of the low priority attached by the Eisenhower administration to the general issue of private foreign investment. There was no true test of strength; instead, there was a virtually complete retreat by the executive branch.

In 1954, the House, following the recommendations of its Committee on Ways and Means, approved each of the administration's suggested tax breaks: it extended the WHTC provision to allow a 14 percent tax reduction to foreign branches or subsidiaries operating anywhere in the world; it agreed to allow branches of U.S. corporations to defer taxes on income earned abroad until that income was repatriated to the United States; it permitted corporations to claim as a tax credit the "principal" tax imposed by a foreign country; it removed the overall limitation on foreign tax credits; and it sanctioned the extension of tax credits to individual stockholders in investment trust companies holding more than 50 percent of their assets in foreign securities.[37] Relying on Treasury statistics, the Ways and Means Committee estimated the revenue losses involved in these changes at $147 million for fiscal year 1955.[38]

The Senate Finance Committee refused, with two minor exceptions, to endorse the House action.[39] Its view reflected what would prove to be an irreconcilable conflict between corporate representatives and executive branch officials on the issue of the kinds of business activities abroad that would be eligible to claim the 14 percent tax reduction. An administration official later observed that the tax measures

> failed in the Senate due to the opposition of Senator [Eugene D.] Millikin [Chairman of the Senate Finance Committee], with whom I had considerable personal sympathy. The idea was sound, but the business community was so badly divided through the desire of those not properly entitled to the credit to enter into its benefits that the Senator felt it should wait until business made up its mind.[40]

The administration, spearheaded by the Department of the Treasury, insisted on a definition of foreign income eligible for tax breaks that was limited to earnings derived from

[37] U.S., Congress, House, Committee on Ways and Means, *International Revenue Code of 1954, Report to Accompany H.R. 8300, A Bill to Revise the Internal Revenue Laws of the United States* [hereafter cited as *House Report 1337*], 83d Cong., 2d sess., March 9, 1954, H. Rept. 1337.

[38] *Ibid.*, 78.

[39] See *Senate Report 1622* (fn. 14), 104-07. The exceptions on which the committee agreed were the removal of the overall limit and the provision regarding investment trusts.

[40] Letter, Clarence B. Randall to Secretary of the Treasury Robert B. Anderson, October 30, 1957, p. 2, Stimulation of Investment File, Policy Paper Series, U.S. Council on Foreign Economic Policy Records, 1954-1961, Eisenhower Library.

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> the active conduct of a trade or business abroad, with the exception of export trade. It is related to economic activities which often involve capital import and typically involve full participation and integration in the economy of the country where it is carried on. To avoid any tax motivation for companies to shift to foreign countries their production of goods intended for our own home markets, the importation to the United States of any substantial part of the production manufactured abroad would disqualify a company for the special tax treatment.[41]

Tax breaks would be denied to corporations that derived less than 95 percent of their earnings from outside the United States, and less than 90 percent from the "active conduct of a trade or business." They would also be denied to firms if more than 25 percent of their foreign income "derived from the manufacture of goods intended for sale or use in the United States."[42]

The Treasury Department's unwillingess to extend tax incentives to companies that sold goods abroad (other than those produced there) or to companies that engaged in both production and export abroad engendered strong opposition by exporters and multinationals. They contended, with justification, that the administration's proposal did not reflect the realities of corporate activity abroad. Industry representatives and others considered the attempt to separate almost completely exports and manufacturing investment abroad as artificial and unworkable. A typical statement was made during 1954 Senate hearings by Thomas M. Tarleau, chairman of the tax section of the American Bar Association: "International commerce is a complex of trade and investment, which cannot be realistically separated. Investments abroad usually grow out of trade abroad. If we are to encourage investment we must encourage trade."[43]

The administration, however, would not budge on the issue, either in 1954 or thereafter. Although it was willing to support tax incentives that would lead to an estimated $147 million tax loss, it was not willing to sacrifice the additional $700 to $800 million that would be lost if the 14 percent reduction was extended to exports as well as to investments abroad.[44] The Treasury Department also insisted that excluding export

[41] U.S., Congress, House Committee on Ways and Means, *Foreign Investment Incentive Act, Hearings*, 86th Cong., 1st sess., July 7-9, 1959, p. 47.

[42] *House Report 1337* (fn. 37), 76.

[43] *Internal Revenue Code of 1954, Hearings* (fn. 14), 337. As Richard E. Caves notes, a mix of exporting and manufacturing is common in foreign direct investments. "Often the foreign subsidiary does not just produce the parent's goods for the local market; it processes semi-finished units of that good, or it packages or assembles them according to local specifications." The subsidiary may thus produce goods abroad as well as distribute goods produced by its parent. See Caves, *Multinational Enterprise and Economic Analysis* (Cambridge, England: Cambridge University Press, 1982), 22.

[44] U.S., Congress, Joint Committee on the Economic Report, *Federal Tax Policy for Eco-*

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profits from eligible foreign income was "essential to avoid giving a tax subsidy to exports and unfairly undermining the position of other countries in international markets."[45]

In 1955, when the administration again presented its tax proposals to the Ways and Means Committee, it was still unable to persuade Congress to accept its definition of income eligible for the tax incentives. The opposition of many U.S. multinational and other corporations evidently bore greater weight in the minds of the majority of congressmen. Yet the critical factor was the administration's unwillingness to deploy its power resources to the fullest extent.

Despite Eisenhower's reference to the tax incentives as "one of the foundation stones" of his administration's foreign economic policy,[46] a great deal of evidence suggests that his administration apparently did not consider either the tax incentives or the expansion of American multinationals to be vitally important policy objectives. Many administration officials believed that increased foreign investment would increase American power; hence, they were willing to support a program to encourage expanded investments. Yet it is clear that the issue was not of central importance to them: in the 1950s, the U.S. government simply did not care much about, and indeed some administration officials actively opposed, an expansion of U.S. private foreign investment abroad.

Several factors diminished the significance of the issue of foreign direct investment and can explain the unwillingness of the administration to expend its political resources to persuade Congress to endorse its tax package. Among these were competing foreign policy issues; a conviction that private capital would not be invested abroad where the administration deemed it useful; disagreements within the administration over the wisdom of providing government incentives for capital exports; the implications of expanded investments for U.S. trade policy; and the limited importance of direct investment in the context of the U.S. economy as a whole. (In fact, in his last month in office, Eisenhower endorsed a proposal to curb tax abuses by American multinational corporations.)

Among the more pressing concerns of the Eisenhower administration

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nomic Growth and Stability, papers submitted by panelists appearing before the Sub-committee on Tax Policy, p. 724.

[45] House, *Private Foreign Investment, Hearings* (fn. 33), 49.

[46] Letter, Dwight D. Eisenhower to the Honorable Daniel A. Reed, July 15, 1954, Foreign Investments File, Official White House Central Files, Eisenhower Library.

[47] As of 1950, the Department of Commerce calculated U.S. and selected foreign average corporate income tax rates as follows: United States, 39.2%; Canada, 39.4%; United Kingdom, 52.5%; Venezuela, 27.0%; Panama, 6.7%; Turkey, 20.0%. While the rates of some LDCs exceeded those of the U.S., lower rates prevailed for the most part among the less developed countries. U.S., Commission on Foreign Economic Policy, *Staff Papers*, February 1954, p. 108.

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were the defense budget and, in particular, the adequacy of its nuclear strategy; the Soviet explosion of a hydrogen bomb in 1953; the defeat of the French at Dienbienphu in 1954; the future of the Arbenz regime in Guatemala; the ongoing McCarthy hearings; the British and French debacle at Suez in 1956; and the Sputnik launching in 1957. Juxtaposed against these issues, direct capital exports paled in significance.

The administration assumed that private investors might not be willing to send their capital where it would promote U.S. foreign policy objectives. As the specific provisions of its tax proposals make clear, the administration chiefly wanted to increase investment in Third World industry: although the 14-point reduction in tax rates applied in theory to all areas of the world, in reality it would act as an incentive only for investments in areas in which tax rates were significantly below those of the United States, predominantly the less developed countries.[47] The extension of the deferral privilege to branch enterprises—although in principle also not restricted to manufacturing activities—required a willingness to forgo depletion allowances. This provision significantly reduced the value of the deferral privilege to investors in oil and other primary product industries. The incentives as a whole, moreover, were designed so as to exclude income from exports, and to apply only to actual production or retail operations abroad.

The administration was aware that its program to encourage private investment in areas of importance to U.S. security faced serious obstacles. The pattern of expansion of American MNCs, both before and after World War II, did not suggest that it would be easy to enlist these firms in the development of Third World industry, particularly in the Near East, Asia, and Africa. American manufacturing firms abroad tended to locate in high-income areas and/or in areas with which their executives were familiar.[48] Previous efforts to engage American firms in countries that were of interest to the U.S. government had not been notably successful. As Krasner has noted, those efforts had left the government in the position of "pushing on a string."[49] Administration officials were well aware, as Staley had earlier observed, that "frequently those areas or ventures of most importance to diplomats, strategists, and patriots, in which the presence of national capital would be serviceable to the government's foreign policy, are the very ones least calculated to inspire enthusiasm in those who hold available funds."[50]

They also recognized that the incentives would not significantly affect

[48] Caves (fn. 43), 63. [50] Staley (fn. 36), 273. [49] Krasner (fn. 10), 104.

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the principal deterrent to foreign investment in the Third World. The major obstacle blocking the flow of private capital to less developed areas was what the Commerce Department and many other agencies and individuals within and outside the government labeled the "unfavorable investment climate." In the development of the Third World,

> private investment can at best only deal with a part of the total problem. In the most critical areas, the absence of a favorable investment climate precludes any substantial aid from private capital. The first task, therefore, becomes one of changing the investment climate, a collective term which includes the factor of financial and political stability, public as well as private integrity, sufficient educated public opinion to support tax, labor, and other legislation which will aid the entrepreneur and insure opposition to measures which will unduly exploit and harass new enterprises. In general, it may be said that when a favorable investment climate has been created in a substantial majority of the underdeveloped countries, the cold war will have been resolved in favor of the free world.

Reflecting opinion in other agencies of the Eisenhower administration as well, the Commerce Department concluded that "private investment ... is more the reward for having achieved a dynamic free economy, rather than the means of securing it."[51]

Beyond the issue of whether U.S. capital exports would respond as desired to tax incentives, the support of the administration for its own initiative was weakened by internal dissent from the assumption that capital exports were in the national interest. For example, Marshall M. Smith, the acting assistant secretary for international affairs in the Department of Commerce, questioned "whether there is a need or a justification" for increasing the flow of investment abroad, and called for a "high level determination of policy in the matter of overseas investments."[52]

More important was opposition centered in the Department of the Treasury. Despite its leading role in presenting the tax-incentive package to Congress, the Treasury Department was its strongest opponent within

[51] Memorandum prepared by the Department of Commerce, "Conclusions Regarding the Stimulation of Investment in Foreign Countries," November 21, 1955, p. 5, Stimulation of Investment File, Policy Paper Series, U.S. Council on Foreign Economic Policy Records, 1954-1961, Eisenhower Library. Similar conclusions were reached by the National Advisory Council on International Monetary and Financial Problems in December 1955. See Memorandum, C. Edward Galbreath to [Joseph] Dodge, January 4, 1956, Stimulation of Investment File, Policy Paper Series, U.S. Council on Foreign Economic Policy Records, 1954-1961, Eisenhower Library.

[52] Memorandum, Marshall M. Smith to Assistant Secretary Anderson, September 8, 1954, Foreign Investment File, Official File, White House Central Files, Eisenhower Library. See also Kaufman's assessment of the Department of Commerce (fn. 29), 46.

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the administration. A staff assistant to Eisenhower's Council on Foreign Economic Policy observed early in 1960 that "throughout the history since 1954 of proposals for tax incentives to private investment abroad, Treasury has been the roadblock to action on this subject. . . ."[53] The Department objected to the tax proposals in part because it was determined to balance the federal budget. There was more at stake, however, for Treasury Secretary Humphrey, who was a powerful figure in the Eisenhower administration. Humphrey's position on direct foreign investment was partly the product of his inclination toward economic isolationism and his fears that capital exports and U.S. balance-of-payments trends would erode America's competitive position in the world economy. Convinced, as Eisenhower observed of him, "that the United States really needs nothing from the outside world,"[54] Secretary Humphrey argued (unsuccessfully) as early as 1955-56 that balance-of-payments trends threatened to weaken the U.S. economy; he emphasized that these trends had to be reversed if the United States was to be able to match "the increased competition that will come from Russia's nonprofit economy, Germany's new strength, and Japan's re-emergence on the economic scene."[55]

Thus, in addition to its other foreign policy concerns and doubts about its ability to control the flow of private foreign investment, the administration had to contend with internal divisions over the congruence between the national interest and increased private capital exports. The knowledge that increased capital exports could be sustained in the long run only if U.S. imports expanded, and that increased foreign direct investment was itself likely to increase U.S. imports, further depressed the administration's interest in the issue. In view of its difficult encounters with Congress over the issue of liberalizing import barriers, the likelihood that increased foreign investment would at some point increase U.S. imports reinforced the administration's cautious approach to increasing that investment.[56]

Perhaps the single most important factor contributing to the administration's relative lack of enthusiasm was the fact that foreign direct

[53] Memorandum, C. Edward Galbreath to [Clarence] Randall, April 5, 1960, Tax Incentive File, Policy Paper Series, U.S. Council on Foreign Economic Policy Records, 1954-1961, Eisenhower Library.

[54] Letter, Dwight D. Eisenhower to Milton Eisenhower, October 25, 1954, October 1954 File, DDE Diary Series, Eisenhower Library.

[55] Minutes of Cabinet meeting, April 20, 1956, Cabinet Meeting April 1956 File, Ann Whitman Series, Cabinet Series, Eisenhower Library.

[56] For an analysis of Eisenhower's problems in gaining congressional approval of trade legislation, see Raymond A. Bauer, Ithiel DeSola Pool, and Lewis Anthony Dexter, *American Business and Public Policy: The Politics of Foreign Trade*, 2d ed. (Chicago: Aldine-Atherton, 1963).

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investment constituted only a marginal (although positive) contribution to the overall U.S. economy. In 1955, for example, U.S. private foreign investment amounted to only one-third of one percent of U.S gross national product. In contrast, exports equaled three percent of GNP; even spending by U.S. tourists abroad exceeded the level of private capital sent overseas.[57] Although it might be argued that these statistics mask, for example, the importance of foreign investment in ensuring access to critical raw materials or for particular industries, the available evidence does not support this argument. The end of the Korean War had led to a lull in Washington's concern about raw materials supplies. Nothing in the Eisenhower Library, in congressional sources, or in the administration's foreign policy behavior indicates that there was an intense concern about foreign investment in raw materials (with the possible exception of oil), or in any other industries abroad.[58] On balance, the contribution of foreign investment was assessed as marginal.

Thus, although most members of the Eisenhower administration agreed that increased U.S. investments abroad would be a useful addition to the array of existing foreign policy instruments, and therefore favored appropriate revisions in the tax code, they did not perceive corporate expansion as essential to the achievement of core U.S. foreign policy objectives.

When the administration encountered resistance in Congress to its tax incentive proposals, therefore, it did not invest much effort in opposing that resistance. It did not offer to revise its definition of income eligible for tax breaks. It apparently did not object to the failure of Congress even to hold hearings on the tax incentives for foreign investment that it recommended again in January 1955.[59] Thereafter, the

[57] U.S., Congress, Joint Committee on the Economic Report, *January 1955 Economic Report of the President, Hearings*, 84th Cong., 1st sess., January 24, 26-28, 31 and February 1-3, 8-10, 16, 1955, p. 864.

[58] It is possible that access to the still classified records of the Eisenhower administration would yield a different assessment. There is evidence, however, that further declassification would not alter the essential conclusion. Already available in the Eisenhower Library, for example, are complete records of the minutes of Cabinet meetings and of the President's frequent meetings with congressional leaders; both sets of records are almost completely devoid of any references to foreign investment. The declassified portions of the records of the Council on Foreign Economic Policy (responsible for developing and coordinating the administration's foreign economic policy) contain much information on foreign investment, including minutes of meetings and staff memoranda, that supports the argument that foreign direct investment was an issue of low salience within the administration. There is only one brief reference to foreign investment in Eisenhower's diary entries. See Robert H. Ferrell, ed., *The Eisenhower Diaries* (New York and London: W. W. Norton 1981), 310.

[59] The bill to implement the President's recommendations was sent to the Ways and Means Committee on January 29, 1955. No hearings were ever held, nor was a report ever issued. Memorandum to [Clarence] Randall, October 29, 1957, p. 2, Stimulation of Investment

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administration refrained from pressing Congress to consider the issue. In 1959 and 1960, when Congress evaluated a proposal by Representative Hale Boggs to reduce taxes on foreign investment, the administration lent its reluctant support only to the extension of tax deferral to corporations investing in less developed countries.[60]

By early 1961, in fact, the Eisenhower administration had begun to view some American multinationals less as candidates for tax subsidies than as targets for tax increases. The balance-of-payments deficit prompted Treasury Secretary Anderson to propose cutting taxes on domestic industry and raising those imposed on certain American MNCs. In a letter explicitly approved by the President, Anderson advised C. Douglas Dillon, Treasury Secretary of the incoming Kennedy administration, that it was of the utmost importance to liberalize depreciation allowances. He argued that

> many of the highly industrialized nations of the world with which we compete have depreciation allowances which are considerably more liberal [than ours]. . . . To the extent that our world position is to be improved by the efforts of a vigorous and healthy private economy, liberalized depreciation may well be one of the most important contributions that can be made in our tax system.[61]

To offset partially the revenue losses inherent in liberalized depreciation allowances and to increase the equity of the tax system, Anderson recommended that Dillon attempt to revise the tax code so as to capture revenues that U.S. multinational corporations sheltered in "tax-haven" countries—countries imposing little or no tax on foreign income. The income shelters "and their implications for the revenue, the tax system, and the balance of payments," argued Anderson, made it "appropriate to modify some of the features of the present tax law" so as to constrain the use of the havens by U.S. multinational firms.[62] While emphasizing that "no barriers should be imposed upon investment abroad and further that private investment in less developed countries should be encouraged," Anderson recommended the elimination of "special tax advan-

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File, Policy Paper Series, U.S. Council on Foreign Economic Policy Records, 1954-1961, Eisenhower Library.

[60] U.S., Congress, Senate, Committee on Finance, *Foreign Investment Incentive Tax Act of 1960, Hearings*, 86th Cong., 2d sess., June 13-August 23, 1960. Kaufman (fn. 29), 159, argues that the White House endorsed the LDC part of the Boggs bill "largely in response to growing political pressures" to increase the role of private investment in economic development abroad. He maintains that the Eisenhower administration had concluded earlier, however, that public capital would have to play the primary role in spurring economic growth in the LDCs.

[61] Letter, Secretary of Treasury to the Honorable Douglas Dillon, January 16, 1961, p. 2, Robert Anderson File, Ann Whitman Series, Administration Series, Eisenhower Library.

[62] *Ibid.*, 3.

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tages . . . not available for investment in the United States."[63] Anderson's letter can be seen as the precursor of the explicit trade-off the Kennedy administration would later make between harsher taxes on foreign investment and lighter taxes on domestic investment.[64]

To sum up, the defeat of the Eisenhower administration's original proposals in Congress was at least partly due to its unwillingness to support them vigorously. There was no serious effort by members of the administration to persuade key congressmen or committees that its variant of the proposed tax incentives was preferable to that advocated by industry representatives. The ability of corporate spokesmen to thwart the administration's policy proposals owed as much to the lack of interest by the administration as it did to corporate power. Thus, what might appear as an effective exercise of private power is more accurately interpreted as a failure of the government to commit and mobilize the power resources available to it. It may be that, even in the presence of commitment and mobilization, the administration would not have succeeded in overwhelming the opposition of private actors. Given the actual events, however, the case conceals as much as it reveals about the balance of power between private and public actors.

Conclusion

This study of the origins and outcome of attempts by the Eisenhower administration to subsidize the expansion of U.S. corporations abroad casts new light on and confirms the problems intrinsic to any effort to disentangle the interests and influence of private and public actors in the setting of postwar U.S. foreign policy objectives. Areas in which public and private interests overlap tend to defy efforts to segregate and compare their power; areas in which they conflict may yield misleading results unless the analyst controls for the intensity of interest of the parties.

Empirical investigation of preference intensities would seem indicated for issues that fall between what Zimmerman, following Arnold Wolfers, has labeled the "pole of power" and the "pole of indifference." Private

[63] *Ibid.*, 4.

[64] In 1961, the Kennedy administration proposed the elimination of tax deferrals on earnings of American MNCs' subsidiaries abroad to compensate for the tax revenue loss that would result from the administration's proposed investment tax credit for domestic industry. See Herbert Stein, *The Fiscal Revolution in America* (Chicago and London: University of Chicago Press, 1969), 390. Congress passed the credit, but only agreed to tax certain earnings of multinationals operating in tax havens (Subpart F of the Internal Revenue Code). For a discussion of the Kennedy proposals and their reception in Congress, see Krause and Dam (fn. 11), 30-40.

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actors are affected symmetrically by foreign policy issues that lie at either the pole of power (where a major threat to the state exists) or at the pole of indifference (where "not more than minor values" are threatened).[65] When foreign policy issues cluster at either pole, group conflict is unlikely to occur, and preference intensities can be assumed to be at low levels. Issues falling between the two poles, however, affect private interests asymmetrically and more than marginally. As a result, the interests provoked, and their corresponding preference intensities, become variables important to the determination of policy processes and outcomes. The large number of foreign policy issues that fall between the poles suggests that the findings of the case examined may extend to a wide range of issues beyond the sphere of foreign direct investment policy.

Although in the present context it is the government's lack of interest that is particularly critical, it should be obvious that invalid conclusions could also arise as a consequence of failures to control for variations in the level of intensity of American multinationals' preferences across time and across issue areas. Theoretical and empirical literature on the origins of multinational firms and on the organization of large groups for collective action indicates the need for some skepticism with respect to the assumption that MNCs act effectively upon a continuing, high-level interest in the course of U.S. foreign policy.[66] The U.S. government may have had more autonomy in this area of policy than is suggested, for example, by radical left analyses. The incentives that lead firms to become multinational corporations are largely independent of their home government's foreign policy. They derive instead from market failures for those assets that give potential MNCs an advantage over foreign firms and from location—specific factors that encourage production abroad as well as at home.[67] Because these incentives are little affected by foreign policy, it is illogical to expect MNCs to maintain an intense interest in, and a strong desire to influence, the course of U.S. foreign policy.

One obvious and important exception should be noted. While the incentives encouraging a firm to expand abroad are market-related, the *ability* of a firm to do so depends on the existence of open markets abroad. Multinational firms should therefore be intensely interested in

[65] Zimmerman (fn. 1), 1204.

[66] See Caves (fn. 43), chap. 1; Mancur Olson, *The Logic of Collective Action: Public Goods and the Theory of Groups* (Cambridge: Harvard University Press, 1965); and Bauer, Pool and Dexter (fn. 56).

[67] A. L. Calvet, "A Synthesis of Foreign Direct Investment Theories and Theories of the Multinational Firm," *Journal of International Business Studies* 7 (Spring/Summer 1981), 43-59.

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what might be called the "milieu" goal of an American foreign policy that is oriented toward either establishing or preserving a liberal international economic order. Although it is not logical to expect that MNCs in general will maintain a keen interest in U.S. foreign investment policy across all time periods and issue areas, it is logical—as radical scholars have argued—to expect that they will attempt to influence the U.S. government to pursue a world order open to the free flow of goods and capital.

Here, however, two other problems of analysis arise. From the perspective of MNCs, the establishment of such a global order is a public good: it is nonexcludable and indivisible. Thus the logic of collective action would suggest that, even in this instance, the willingness and ability of MNCs to influence U.S. policy can easily be exaggerated. Moreover, when obstacles to collective action can be overcome, causal analysis in this sphere of policy is confounded because the postwar U.S pursuit of a liberal international economic system is a classic example of an overdetermined outcome: the U.S. government and American multinational firms had overlapping as well as independent interests in the effort to establish a market-oriented world system.

Apart from this milieu goal—the importance of which is not meant to be understated—it would seem clear that the interests of American multinational corporations and the U.S. government in the course of postwar U.S. policy regarding corporate expansion abroad have varied widely across contexts and issues. As a consequence, the relative power of the U.S. government and American corporations in the setting of postwar U.S. foreign policy must also have varied. Any conclusion that either private or public interests generally prevail in the making of U.S. foreign direct investment policy is, therefore, unlikely to correspond to empirical reality.

This, of course, is nothing new from the perspective of power analysis. The context within which an issue is raised, the range of actors mobilized by the issue, and the intensity of their interest in and commitment to it can radically alter outcomes predicted solely on the basis of tangible power resources. In the specific sphere of the relative power of U.S. private and public actors in setting official U.S. policy on corporate expansion abroad, sensitivity to these issues might significantly alter conclusions about the determinants of U.S. policy in the postwar period.

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GROWTH AND FLUCTUATIONS OF PRODUCTION IN O.E.C.D. AND EAST EUROPEAN COUNTRIES

By FREDERIC L. PRYOR*

I. Introduction

OUR knowledge of the operations of the centrally planned East European economies has become increasingly detailed; unfortunately, this accumulating scholarship has led to a certain disregard for some of the larger issues, especially concerning long-term developmental trends. The adverse results of this loss of focus have become quite apparent from the discussions about Soviet and East European economic problems—occasioned by the deaths of Leonid Brezhnev and Yuri Andropov—in the popular and semi-popular press. Most of the sweeping generalizations presented to the public were at considerable variance with scholarly assessments tucked away in publications for specialists. Further, many of the important empirical lessons in earlier comparative studies of long-term growth in East and West (for example, the remarkable survey by Bergson)[1] appear to have been forgotten; and U.S. governmental policy statements often appear to be based on false assumptions about what actually happened.

The purpose of this essay is to summarize the best available information about economic growth in Eastern Europe between 1950 and

* I wish to express my appreciation to Thad P. Alton for his assistance, and to Mark Kuperberg, Kenneth Lieberthal, Zora Pryor, and George Staller for helpful comments on earlier drafts of this essay. I am also grateful to Gudmund Iverson, Robert Summers, and Halbert White for their econometric aid. Empirical materials for this essay have been drawn, with the publisher's permission, from F. L. Pryor, *A Guidebook to the Comparative Study of Economic Systems* (Englewood Cliffs, N.J.: Prentice-Hall, 1985).

[1] Abram Bergson, "Development under Two Systems: Comparative Productivity Growth since 1950," *World Politics* 23 (July 1971), 579-617. Using data for the period 1950 through 1967, Bergson showed that aggregative growth and aggregative growth per worker were about equal between O.E.C.D. and East European states, but that in the East the ratio of investment to GNP was higher and the incremental capital productivity ratio was lower (which suggests lower dynamic efficiency). My results are quite similar in these respects.

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1979 (or 1980) and, by comparing such data with similar information for the O.E.C.D. countries, to obtain a general perspective on economic development and fluctuations of production in both types of economic systems.[2] To this end, I will present comparable data for 29 states, and will attempt to isolate the effects of economic system and other alleged causal variables by means of straightforward ordinary least squares regression analysis.

The major conclusions of such an exercise may be summarized in the form of four sets of propositions: (1) Aggregate growth of gross domestic product (GDP) as well as growth of major sectors has not differed greatly in the O.E.C.D. and East European countries. (2) Retardation of aggregate growth of GDP does not appear to differ greatly in the two sets. (3) Fluctuations of aggregate production in East and West appear quite similar as well (except, perhaps, for agriculture). (4) Economic growth in the O.E.C.D. economies appears to have been accomplished with a somewhat greater degree of dynamic efficiency than in Eastern Europe—if not for the economy as a whole, then for individual sectors.

I leave for specialists the task of drawing detailed implications of these results for foreign policy; in this essay, the primary focus will be on establishing these four propositions. Nevertheless, if past experience proves to be guide to the future, any long-term foreign policies based on important differences of aggregate economic performance between East and West are likely to run into difficulties.

II. Some Methodological Problems

A. Data Sources

For reasons that have received considerable attention in the technical literature, the series of aggregate production published by various East

[2] I have chosen 1979 as my end point for the calculations because it appears to have been an average year. As a result of the second oil shock, many countries in the sample experienced recessions from long-term growth paths. Even though most of the growth-rate figures in this essay are calculated by fitting regression curves to the data, this procedure does not (contrary to popular belief) eliminate difficulties in selecting end points. For instance, fitting an exponential growth curve to a GDP series that manifests a perfectly even 5 percent growth rate for 29 years and then has a temporary leveling off of its GDP for the next three years results in a calculated growth rate of 4.7 percent. If a quadratic term is added to the regression, an even greater distortion in the growth rate is obtained, not to mention a statistically significant rate of growth retardation.

Note: Gross domestic products (GDP) are roughly equal to gross national products minus income from abroad. For all countries in this study, the differences between the two aggregates are slight.

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European countries are usually not comparable with similar series published in the West.[3] Therefore, I have used not only official aggregate data from Eastern Europe, but Western recalculations of these series as well.[4] For the other socialist, centrally planned economies (e.g., Albania, Cuba, Mongolia, North Vietnam, etc.), recalculated series are either unavailable or much less reliable; these countries are therefore not included in the comparisons. For Western economies, I have relied primarily on O.E.C.D. statistics, supplemented in certain cases by data taken from national sources.[5]

B. Statistical Difficulties

1. Problems of Inference

The sample includes 29 countries—almost all of Europe. The comparisons between the East and the West may be interpreted in two ways: (a) Differences between the two groups, no matter how slight, demonstrate that one group has had a "better" economic performance than the other. (b) The sample represents only a subset of the *possible* market and centrally administered economies; therefore, true differences can only be determined by employing standard statistical practices. I have chosen the second alternative in order to avoid placing undue weight

[3] First, most of the official East European aggregate series for the volume of production omit services; they focus exclusively upon "material production." Second, many components of these volume series are weighted by distorted final prices: the overall effect of the bias that is induced is difficult to judge because some of the most slowly growing sectors (e.g., agriculture) and industrial branches, as well as some rapidly growing sectors (e.g., investment goods), are underweighted. Third, in some countries, for certain periods, gross production for each branch was aggregated without any attempt to eliminate intermediate products. Since these three factors appear to give an upward bias to the official production series, numerous Western economists have attempted to recalculate the indices so as to make them more comparable with similar series for the West. The most difficult problem is the weighting problem: it has been most commonly solved by use of "adjusted factor cost weights," a procedure that has been defended in, e.g., Abram Bergson, *The Real National Income of Soviet Russia since 1928* (Cambridge: Harvard University Press, 1961).

[4] As far as I have been able to determine, the most careful Western recalculation of the Soviet GNP and its components for the period from 1950 through 1979 is the Greenslade index (exact sources are in Appendix A). For various East European countries, the only Western recalculations of the GNPs and their components for almost the entire postwar period have been prepared by Thad P. Alton and his associates at the Research Project on National Income in East Central Europe. The results of both are presented periodically in various publications of the Joint Economic Committee of the U.S. Congress.

Both the Greenslade and Alton estimates were made by calculating indices based on very large samples of production series of individual goods and services (usually in physical units). These series are first combined into a number of industrial branches using several different kinds of weights; the branches are then combined using adjusted factor-cost weights. The methodology of the Greenslade index is described in U.S. Congress, Joint Economic Committee, *USSR: Measures of Economic Growth and Development, 1950-1980* (Washington, D.C.: G.P.O., 1982).

[5] Because of lack of comparability with countries in Eastern Europe and also because of problems with the data, I have excluded two very small members (Luxembourg and Iceland) and one underdeveloped country (Turkey) from the O.E.C.D. list.

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on small differences that may be due to chance events or problems in the data.

Since many of the causal relations explored in the analysis are not well specified, the regression coefficients and their standard errors may also be interpreted in two ways: (a) The calculations represent a testing of hypotheses, and the .05 standard of significance employed below provides a useful test to determine which propositions are false. (b) The calculations represent merely an exercise in exploratory data analysis, so the role of the .05 test is to screen out low partial correlations. The analysis is carried out in terms of the first interpretation; readers must make their own decision on this problem of inference.[6]

2. The Systems Variable

For many of the phenomena considered below, conflicting theories can be adduced to show that countries with one particular economic system have a better economic performance than countries with other systems. In view of these conflicting approaches, it seems useful to settle the matter empirically rather than to extend a sterile theoretical literature. Therefore, in all of the regressions I have included a dummy variable which is "0" if the state has a capitalist market economy and "1" if it has a socialist, centrally administered economy. For Yugoslavia, a serious problem of classification arises: allegedly it is a socialist market economy and therefore combines elements from both the East and the West. One way of handling the problem is to assign arbitrarily to Yugoslavia a system value of 0.5; a more satisfactory method (followed below) is to omit this country from the regressions completely; after all results have been reported, I ask the empirical question: which system does Yugoslavia most closely approximate?[7]

3. Other Notes

In many of the regressions, the systems variable enters only as a shift parameter. I carried out analyses of covariance (Chow tests and other

[6] Similarly, given the first interpretation, the heteroskedasticity test (described in fn. 8) is necessary for the statistical tests to be carried out properly. Given the second interpretation, the heteroskedasticity test merely assures us that this particular statistical screen is of roughly equal severity across equations.

[7] Classification problems of a less serious nature arise for certain other countries, such as Hungary and France. Hungary adopted *some* market elements in its reforms of January 1968; these have lasted to the present day. France has had sufficient *dirigistic* elements in its economy at *certain* times in the recent past to be considered as having a marked degree of central administration in certain sectors. However, these changes do not represent a transformation of the essential nature of the economic system, and therefore I do not believe that further adjustments to the systems variable are warranted. Sufficient data are presented below so that those disagreeing with this empirical judgment can redefine one or more systems variables and recalculate the regressions.

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F tests) to determine if there are interactions between the systems variable and the other causal variables (i.e., if the calculated coefficients for other causal variables differ in the two economic systems). No such interactions were found, and these negative results are not further reported.[8]

The various regressions were calculated with the variables transformed in a variety of ways. The conclusions reached are surprisingly similar regardless of the form of the regression. For simplicity, I usually present only the untransformed results.

Since there are many conflicting theories about the relative importance of different causal factors underlying the phenomena discussed below, I carried out a considerable number of regression experiments. Few of them added much explanatory power and they are therefore not reported.

III. Aggregate Growth Rates

Proposition: Aggregate growth rates have not differed significantly between the O.E.C.D. and the East European economies in the thirty years under consideration, other things being equal. If industrial production has grown faster in the East, it has been offset by greater growth of other sectors in the O.E.C.D. countries.

The major problem in exploring this proposition and the others discussed below consists of specifying the other factors underlying economic growth, which must be held equal. I shall argue that there is an inverse relationship between the rate of aggregate economic growth and the level of economic development. Once this causal factor is held constant,

[8] The analytical methods used in this article are simple, but raise a problem that should be mentioned. I have taken time-series data for the various countries, estimated particular types of statistics for each country (e.g., growth rates), and then tried to explain these statistics by a second set of regressions. Such a two-stage procedure introduces a particular type of heteroskedastic disturbances that, in turn, raise questions about the calculated standard errors. This problem has been discussed in detail by Gary R. Saxonhouse, "Regressions from Samples Having Different Characteristics," *Review of Economics and Statistics* 59 (May 1977), 234-37, and Halbert White, "A Heteroskedasticity-Consistent Covariance Matrix Estimator and a Direct Test for Heteroskedasticity," *Econometrica* 48 (May 1980), 817-38. White has proposed a rather simple test to determine whether or not such heteroskedasticity is sufficiently important for any given data set to require adjustments to the standard errors in the second set of regressions. These tests were carried out on all important regressions presented in this paper; it does not appear that heteroskedasticity raises any serious problems in interpreting the regressions in the two-step procedure followed below; i.e., the standard errors appear adequate for my intended purposes. Although these tests for heteroskedasticity also indicate the occurrence of certain types of specification errors, they are by no means a cure-all for detecting specification problems; for this reason, I have tried to present as much of the basic data as feasible. In this way, readers not only can see what is happening at the country level, they also have the information to calculate alternative regressions that are specified differently or that include other explanatory variables.

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TABLE 1

AVERAGE ANNUAL GROWTH RATES, 1950-1979[a]

	Relative per capita GDP 1970	*Average Annual Growth Rates (percentages)*					
		GDP	*GDP per capita*	*GDP per economically active*	*Industrial production*	*Agricultural production*	*Gross fixed capital investmt.*
EASTERN EUROPE: OFFICIAL GROWTH DATA							
Bulgaria	37.3	–	–	–	11.44	2.15	10.89
Czechoslovakia	62.0	–	–	–	5.90	0.25	6.11
East Germany	63.9	–	–	–	6.22	1.73	8.52
Hungary	42.7	–	–	–	7.12	0.83	8.85
Poland	35.4	–	–	–	8.46	1.46	9.70
Romania	31.2	–	–	–	12.05	2.86	11.33
U.S.S.R.	46.9	–	–	–	8.90	2.30	8.02
Unweighted average		–	–	–	8.58	1.66	9.06
EASTERN EUROPE: RECALCULATED DATA							
Bulgaria	37.3	5.43	4.69	4.91	9.48	2.51	–
Czechoslovakia	62.0	3.67	3.02	2.80	4.38	0.62	–
East Germany	63.9	3.77	4.04	3.71	4.68	1.54	–
Hungary	42.7	3.64	3.22	2.96	4.81	1.20	–
Poland	35.4	4.12	2.98	2.61	6.78	1.56	–
Romania	31.2	5.81	4.78	4.71	9.45	2.39	–
U.S.S.R.	46.9	4.95	3.64	3.62	6.99	3.04	7.03
Unweighted average		4.49	3.77	3.62	6.65	1.84	–

[a] Sources of data and methods of calculation are discussed in the Appendix.

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TABLE 1 (*cont.*)

	Relative per capita GDP 1970	*Average Annual Growth Rates (percentages)*					
		GDP	*GDP per capita*	*GDP per economically active*	*Industrial production*	*Agricultural production*	*Gross fixed capital investmt.*
Yugoslavia	25.8	5.87	4.84	4.91	8.93	2.66	7.48
O.E.C.D.							
Australia	69.6	4.54	2.56	2.15	–	–	4.43
Austria	63.1	4.74	4.38	4.76	5.35	1.82	5.95
Belgium	72.0	4.00	3.51	3.53	5.11	0.61	4.36
Canada	81.9	4.57	2.69	1.88	5.46	1.49	4.36
Denmark	83.3	3.81	3.15	2.97	4.79	0.87	5.42
Finland	63.1	4.48	3.92	3.95	5.82	1.06	4.54
France	73.2	4.86	3.93	4.24	5.84	1.79	6.41
West Germany	78.2	4.85	3.87	4.31	5.55	1.93	5.69
Greece	38.7	6.20	5.51	6.40	8.74	2.92	7.16
Ireland	40.5	3.45	3.06	3.75	–	–	5.66
Italy	49.2	4.92	4.22	4.62	6.71	1.91	4.79
Japan	59.2	8.35	7.23	7.06	–	–	11.43
Netherlands	68.7	4.58	3.39	3.59	5.92	3.18	5.10
New Zealand	64.6	3.46	1.78	1.38	–	–	–
Norway	68.4	4.15	3.37	3.53	4.88	−0.16	4.93
Portugal	27.1	5.43	5.07	4.72	7.63	0.86	6.49
Spain	48.9	5.53	4.52	4.86	7.81	2.49	7.43
Sweden	86.6	3.69	3.08	2.88	4.60	0.22	4.18
Switzerland	72.4	3.72	2.52	2.33	–	–	4.63
U.K.	63.5	2.72	2.29	2.39	2.67	2.17	4.29
U.S.A.	100.0	3.39	2.05	1.67	3.46	1.18	3.09
Unweighted average		4.54	3.62	3.66	5.65	1.52	5.52

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there is no statistically significant difference in growth of GDP, GDP per capita, GDP per worker, industrial production, and agricultural production between the countries of Eastern and Western Europe.

Table 1 presents data on average annual growth rates for a thirty-year period, 1950-1979. The growth rates are calculated by fitting an exponential curve to the various series (i.e., by regressing the logarithm of the annual values of the various series against time).

One causal variable is the relative level of economic development as measured by per capita GDP. There are three major reasons why, in countries that are undergoing self-sustaining economic growth (all the countries in the sample), the growth rates of aggregate production as well as of industrial production should be inversely proportional to the level of economic development. First, the countries with lower per capita GDPs have greater scope for *borrowing* technology; those with higher per capita GDPs are closer to the technological frontier and must *develop* new technologies. Second, the countries with lower levels of per capita GDP have greater scope for moving the labor force from low-productivity agriculture to high-productivity industry—a source of growth unimportant for states whose agricultural labor force is relatively small. Third, for the economically more advanced countries, a greater share of the labor force is in the service sector; this sector shows a lower growth in productivity than others because output is usually measured in terms of input. For instance, GDP originating from personal, business, financial, and governmental services amounts to over 40 percent in economically developed countries such as the United States, to slightly over 20 percent in developing countries such as Portugal.

For all the statistical experiments discussed below I measured relative per capita GDP for 1970, the year that is almost at the midpoint of the period, and for which data for all countries in the sample are readily available. Earlier or later dates for relative GDPs result in somewhat different coefficients, but yield the same general picture.

As mentioned above, the economic system is itself another possible causal variable; a dummy variable designating the economic system is included in the regression. Additional causal variables can be advanced. Statistical experiments (such as inclusion of variables reflecting the importance of foreign trade) were tried, but little additional explanatory power was obtained. The most important regression experiments are presented in Table 2. Regression results of a similar sort for an alternative specification, where the underlying growth rates for each series were computed from regressions that included a quadratic term designating a constant percentage retardation of growth, were also calculated (see

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TABLE 2

RESULTS OF REGRESSION EXPERIMENTS WITH AVERAGE ANNUAL GROWTH RATES[a]

Dependent variable (average annual growth rates)	*Source of data for Eastern Europe*	*Constant*	*Relative level of per capita G.D.P.*	*Systems variable*	R^2	*n*
GDP	Western	+6.549* (0.846)	−0.0307* (0.0125)	−0.666 (0.517)	.1954	28
GDP per capita	Western	+6.016* (0.837)	−0.0366* (0.0123)	−0.579 (0.511)	.2627	28
GDP per economically active	Western	+6.744* (0.936)	−0.0471* (0.0138)	−0.977 (0.572)	.3182	28
Industrial production	Western	+10.558* (1.087)	−0.0737* (0.0156)	−0.541 (0.648)	.5601	23
Industrial production	Official	+10.798* (1.147)	−0.0773* (0.0165)	+1.315 (0.685)	.7006	23
Agricultural production	Western	+2.780* (0.766)	−0.0189 (0.0110)	−0.079 (0.457)	.1519	23
Agricultural production	Official	+2.834* (0.775)	−0.0197 (0.0112)	−0.278 (0.463)	.1319	23
Gross fixed capital investment	Official	+9.237* (1.240)	−0.0569* (0.0182)	+2.419* (0.760)	.6116	27

[a] For the O.E.C.D. countries, the systems variable is 0; for the East European countries, 1. R^2 is the coefficient of determination; *n* is the number of countries in the sample. The standard errors are in parentheses below the calculated coefficients; an asterisk designates statistical significance at the .05 level.

The data are derived from Table 1. Yugoslavia is omitted from these regression experiments.

section V; but they revealed no additional information about the systems variable and are not presented here.

As postulated, the growth of GDP and of industrial production is strongly and inversely related to the level of per capita GDP. Further, the degree of statistical explanation (as measured by the coefficient of determination) increases as one moves from GDP, to GDP per person, to GDP per economically active population.

The most important result is that the calculated coefficient for the

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systems variable is low (both absolutely and in comparison to the standard errors) for all of the regression (using either official or recalculated series for Eastern Europe) except for gross fixed capital investment (discussed in the next section).

Data difficulties are revealed by the sign differences of the systems variable for the industrial production regression when official and recalculated data are employed: for the official statistics, the calculated systems coefficient is positive (i.e., industrial growth in Eastern Europe is higher), and is not quite statistically significant at the .05 level.

Nothing seems to explain agricultural growth very well; the addition of other variables, such as those incorporating various climatic factors, does not make much difference. In sum, the growth of the agricultural sector does not appear to be related to any obvious macroeconomic variables.

IV. Growth and Pattern of Inputs

Proposition: The process of growth of aggregate production appears to have been accompanied either by a roughly similar rate of growth of productive inputs or by a somewhat higher rate of growth in Eastern Europe than in the O.E.C.D. countries. In Eastern Europe, more of the productive inputs have been directed toward material production—particularly industry and agriculture—than in the West. These results, combined with the similarity of aggregate growth rates, suggest that dynamic efficiency has been greater in the West—if not for the entire economy, then at least for individual sectors.

Considerable problems of data comparability arise for the analysis in this section. My data on the labor force suggest that labor inputs in East and West grew at roughly the same rate. Data on the capital stock and on gross fixed investment (less comparable than the labor data) suggest that capital inputs in Eastern Europe either grew faster or at the same rate as in the West. In analyzing dynamic efficiency, it is necessary to take into account not only the growth of aggregate inputs and outputs, but also a composition effect—i.e., different allocations of productive inputs between sectors with different measured productivity increases. Data bearing on the differential distribution of productive inputs in East and West are therefore also presented.

A. Labor Inputs

Ideally, to investigate labor inputs we need data on labor hours (i.e., the flow of labor services). Since comparable data on labor hours are

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impossible to obtain for the sample, however, I use information on the economically active at different points in time (i.e., the stock of labor services). To place these data in perspective, figures on the population of working age are included. Although this procedure raises several problems, I do not believe that these are sufficiently serious to invalidate the results.[9] Relevant labor force and population data are presented in Table 3 for the 1950-1980 period.

The data for 1970 reveal that the participation ratios of men in the labor force are roughly the same for both economic systems. For women, the average participation ratio in Eastern Europe is roughly 50 percent higher than in the West.

These matters can be analyzed more carefully by holding constant some of the other causal variables. One can argue that the participation ratio and its change are functions of the level of development, since choices between work and leisure are supposed to vary with income. The change in the participation ratio may also be a function of the change in the working-age population of countries attempting to achieve a rapid growth of *total* GDP. In states with slow-growing populations, policy makers may place a higher priority on measures to increase growth by increasing the participation ratio than in states where the population is growing faster. The results of the regression experiments to explore these ideas are presented in Table 4.

The first regression shows, as we know already, that the socialist, centrally admininstered economies have higher total (men plus women) participation ratios. Per capita GDP does not seem to play a causal role, and experiments with a squared income term did not markedly improve the degree of explanation.

The change in the participation ratio is also significantly related to

[9] One apparent anomaly of the data can be eliminated quickly. The participation ratio is the ratio of the economically active (those in the work force or looking for work) to the relevant population between 15 and 65. If a considerable number of people over 65 or under 15 are participating in the labor force (e.g., in agriculture), it is possible for the participation ratio measured in this way to be greater than unity—as in the case of Portugal.

More serious problems arise in the assumption that labor stocks can be used as an approximation of labor flows. First, the length of the working day has decreased in almost all countries. Since I am using the number of economically active (at a given time) rather than the number of labor hours, my calculations of growth of the labor input have an upward bias. Second, because the reduction of seasonality is not taken into account, the data on labor input growth have a downward bias. Reduction of seasonality means that the ratio of annual labor hours to the stock of labor at any given point rises over time; therefore, the growth of the stock of labor understates the growth of the flow of labor services. The quantitative importance of this downward bias is unclear, but it probably does not offset the upward bias arising from the first problem. Third, the degree to which the various national statistical agencies handle certain tricky problems (e.g., women in agriculture) in a similar fashion is unknown. Fourth, the labor force data for certain socialist states are incomplete in the mid- and late 1970s, so that I had to make some estimates.

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TABLE 3

LEVEL AND CHANGES OF LABOR FORCE AND PARTICIPATION RATIOS[a]

	Relative per capita GDP 1970	*Average annual growth rates 1950-1980 (percentages)*			*Participation ratios (1970)*		
		Total participation ratio	*Working-age population*	*Economically active*	*Total*	*Men*	*Women*
EASTERN EUROPE							
Bulgaria	37.3	−0.317	+0.648	+0.329	.790	.906	.673
Czechoslovakia	62.0	+0.469	+0.524	+0.995	.747	.840	.657
East Germany	63.9	+0.627	−0.438	+0.186	.819	.961	.698
Hungary	42.7	+0.242	+0.325	+0.568	.719	.855	.591
Poland	35.4	+0.140	+1.209	+1.351	.796	.885	.712
Romania	31.2	+0.257	+0.860	+1.119	.855	.967	.748
U.S.S.R.	46.9	+0.197	+1.398	+1.597	.762	.825	.710
Unweighted average		+0.230	+0.647	+0.878	.784	.891	.684
Yugoslavia	25.8	−0.451	+1.198	+0.741	.694	.901	.497
O.E.C.D							
Australia	69.6	+0.243	+1.925	+2.172	.707	.939	.465
Austria	63.1	−0.074	+0.122	+0.047	.661	.853	.489
Belgium	72.0	+0.208	+0.320	+0.528	.630	.860	.402
Canada	81.9	+0.561	+2.128	+2.701	.645	.857	.432
Denmark	83.3	+0.268	+0.612	+0.882	.750	.918	.580
Finland	63.1	−0.247	+0.809	+0.560	.720	.831	.614
France	73.2	−0.166	+0.725	+0.558	.677	.874	.506
West Germany	78.2	+0.005	+0.648	+0.653	.695	.925	.481
Greece	38.7	−0.539	+0.773	+0.230	.578	.869	.302
Ireland	40.5	−0.464	+0.341	−0.124	.657	.965	.343
Italy	49.2	−0.259	+0.592	+0.331	.595	.868	.335
Japan	59.2	−0.052	+1.534	+1.481	.720	.894	.554
Netherlands	68.7	−0.453	+1.293	+0.835	.583	.862	.301
New Zealand	64.6	+0.253	+1.731	+1.989	.649	.919	.374
Norway	68.4	+0.353	+0.599	+0.955	.641	.890	.388
Portugal	27.1	+0.191	+0.532	+0.724	.647	1.034	.308
Spain	48.9	−0.240	+0.816	+0.574	.621	.964	.292
Sweden	86.6	+0.346	+0.454	+0.802	.743	.888	.594
Switzerland	72.4	+0.144	+0.982	+1.127	.764	1.005	.521
U. K.	63.5	+0.189	+0.189	+0.379	.724	.943	.508
U.S.A.	100.0	+0.372	+1.422	+1.800	.677	.871	.489
Unweighted average		+0.030	+0.883	+0.914	.671	.906	.442

[a] The participation ratio is the ratio of economically active (those in the labor force or looking for work) to the population from 15 to 65 (the working-age population). The growth rate of the participation ratios are calculated from the growth rates of the economically active and the working age population.

Sources of data are discussed in the Appendix.

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TABLE 4
RESULTS OF REGRESSION EXPERIMENTS WITH DATA ON PRODUCTIVE INPUTS[a]

Dependent variable	*Constant*	*Relative level of per capita GDP*	*Systems variable*	*Average annual growth of working-age population*	R^2	*n*
Total participation ratio	0.600* (0.041)	.00108 (.00060)	0.135* (0.025)	—	.5445	28
Average annual growth of total participation ratio, 1950-80	−0.726* (0.214)	.0113* (.0031)	0.428* (0.127)	0.0196 (0.0865)	.4182	28
Average annual growth of economically active, 1950-80	−0.733* (0.215)	−.0114* (.0031)	0.430* (0.128)	1.023* (0.087)	.8718	28
	−0.101 (0.530)	.0155 (.0078)	0.270 (0.324)	—	.1370	28
Average annual growth of fixed capital stock[b]	9.742* (2.184)	−.0622 (.0290)	−1.851 (1.099)	—	.2957	14

[a] For the O.E.C.D. countries, the systems variable is 0; for the East European countries, 1. R^2 is the coefficient of determination; *n* is the number of countries in the sample. The standard errors are in parentheses below the calculated coefficients; an asterisk designates statistical significance at the .05 level.

The data are derived from Tables 3 and 5. Yugoslavia is omitted from these regression experiments.

[b] To increase comparability, only the data for net fixed capital stock, excluding dwellings, are used. Because of the lack of comparability over time, the U.S.S.R. is omitted from the calculation. The time periods included in the growth data differ. None of the regression experiments with other data, presented in Table 5, resulted in a statistically significant coefficient for the systems variable.

the economic system, as shown in the second regression. To put the matter somewhat differently, the labor force in these economies has increased faster than in the Western nations that have the same growth in working-age population, as shown in the third regression (which is identical to the second, except for the last term). In brief, the East European states not only have higher participation ratios, but have also managed to increase these ratios faster than have the Western countries.

Two additional factors must be noted. Although the increase in economically active persons has proceeded faster in Eastern Europe than

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in the O.E.C.D. countries when the working-age population was held constant (the third regression), it has not been significantly faster when the population structure was not held constant (the fourth regression). This comparison shows indirectly what can easily be determined directly—that in Eastern Europe the population structure has been less favorable for growth of the labor supply than in the West. Further, the difference in growth rates between the two sets of countries, although of statistical significance, is quite small. Since there are obvious limits on the increase in the participation ratio, this source of differences between the different economic systems should be less important in the future.

B. Capital Inputs

In analyzing the growth of the capital stock in different countries, we face several comparability problems. Probably the most severe is the proper estimation of depreciation. (For Eastern Europe, little information on this subject is available.) Other serious problems are presented by the inclusion of particular sectors (e.g., dwellings); the definition used to distinguish capital from other durables; and the valuation of the capital (especially equipment whose quality changes). For what they are worth, the available data are presented in Table 5.

What causal factors might underlie the growth in the capital stock? The relative level of economic development and the economic systems variable are two obvious candidates. Although others may be hypothesized, none seem to play an important causal role in the statistical experiments. The results of one regression experiment utilizing the most comparable data are presented in the last regression in Table 4.

There does not appear to be any important or statistically significant difference in the growth of capital stock between the two economic systems. This result is also obtained when other regression experiments are performed. Although the equation suggests that the growth of capital stock is inversely related to the level of development, this result does not appear to be robust.

In view of the uncertain comparability of the capital stock data, it might be useful to approach the problem from a different direction by focusing upon the relative growth of investment. Given the various quirks of such series for Eastern Europe,[10] it seems best to use the data

[10] Official statistics in Eastern Europe distinguish several different types of investment series. See David A. Dyker, "A Note on the Investment Ratio in Eastern Europe," *Soviet Studies* 35 (January 1982), 95-106. The two best-known ones are "accumulation" and "gross fixed capital investment." The former is broader and apparently includes inventory invest-

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TABLE 5

GROWTH OF FIXED CAPITAL STOCK IN SELECTED COUNTRIES[a]

	Relative per capita GDP, 1970	*Time period*	*Average annual growth of capital stock*			
			Gross stock (%)		*Net-stock (%)*	
			A	*B*	*A*	*B*
EASTERN EUROPE						
Bulgaria	37.3	1953-75	—	—	—	7.2
Czechoslovakia	62.0	1953-75	—	—	—	4.1
East Germany	63.9	1953-75	—	—	—	3.4
Hungary	42.7	1953-75	—	—	—	4.5
Poland	35.4	1953-75	—	—	—	4.1
Romania	31.2	1953-75	—	—	—	7.1
U.S.S.R.	46.9	1950-67	8.9	9.7	9.7	10.1
Yugoslavia	25.8	1953-75	—	—	5.6	—
O.E.C.D.						
Canada[b]	81.9	1955-80	—	5.0	—	5.5
Finland	63.1	1960-79	5.0	4.9	4.9	4.7
France	73.2	1955-80	—	4.6	—	5.1
West Germany	78.2	1959-80	4.9	5.2	4.9	5.2
Greece	38.7	1955-79	—	—	6.2	—
Japan[b]	59.2	1964-80	—	9.6	—	8.6
Norway	68.4	1962-80	—	—	4.2	4.2
Sweden	86.6	1962-80	3.8	4.3	—	—
U.K.	63.5	1955-80	3.3	3.5	3.7	4.1
U.S.A.[b]	100.0	1955-80	3.4	3.8	3.6	4.0

A = total fixed capital stock
B = total fixed capital stock excluding dwellings

[a] The East European data (including Yugoslavia but excluding the U.S.S.R.) are from Rudolf Noetel, "Capital and Labour in the Development Process of Eastern Europe," *Vierteljahrschrift fuer Sozial- und Wirtschaftsgeschichte* 67 (No. 4, 1980), 513-72; they represent a reworking of official capital stock statistics. From a comparison of changes in capital stock and gross capital formation, these data appear to be net of depreciation. Since the stated share of fixed capital in "housing and communal services" was roughly 10% in all countries (except Yugoslavia), the capital stock is assumed to exclude dwellings.

The Soviet data are from Richard Moorsteen and Raymond P. Powell, *The Soviet Capital Stock, 1928-1962* (Homewood, IL: Irwin, 1966), and Abraham S. Becker and others, *Two Supplements* (New Haven: Economic Growth Center, Yale University, 1968). The data for the West are from O.E.C.D., *Flows and Stocks of Fixed Capital, 1955-1980* (Paris: O.E.C.D., 1983).

[b] These data include only the private sector.

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on gross fixed capital investment (GFCI). Such growth data are presented in the last column of Table 1.

The last regression in Table 2 suggests that the growth of GFCI in Eastern Europe is 2.4 percent greater than in the West. From this equation we can calculate that for a country with a per capita GDP half of that of the United States, the average capitalist market economy would have an alleged average annual growth of GFCI of 6.4 percent from 1950 through 1979; that of the average socialist, centrally administered economy would be 8.8 percent.

However, part or all of this difference does not seem real; it must, at least in part, reflect the method of calculation and the price weights of the various components. For instance, for the U.S.S.R., the official series reveals an annual growth of 8.02 percent; the Western recalculation is 7.03. For the other East European countries, evidence suggests that actual capital investment growth may be several percentage points below the official GFCI series.[11] (See Table 1.)

If gross fixed capital investment has been growing faster in the East than in the West, it is likely that the capital stock has also been growing faster in the East if we assume scrapping rates and initial (1950) capital/output ratios to be roughly similar. (These two assumptions seem reasonable at first glance, but I have no solid empirical evidence to support them.) If, on the other hand, gross fixed capital investment in the two areas were growing at roughly similar rates, then from the same as-

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ment, investment in livestock, and (in some countries), capital repair. As a share of national income (Marxist definition), it has increased in most East European states. The information is conveniently summarized by George Feiwal, "A Socialist Model of Economic Development: The Polish and Bulgarian Experiences," in Charles K. Wilber and Kenneth P. Jameson, eds., *Socialist Models of Development* (Oxford: Pergamon Press, 1982), 929-51. In these official statistics, the aggregate of gross fixed capital investment also appears to be increasing considerably faster than net material product, so that its share is increasing as well.

[11] The recalculations of East European national account data by Thad Alton and his associates do not include data on the final product side except for estimates of final private and public consumption. However, the difference between their calculated GNP values and their estimates for consumption represent a residual, the primary components of which are defense and gross fixed capital investment; from the behavior of this residual certain inferences can be drawn about the nature of the GFCI series. From 1965 to 1980, the ratio of this residual to the GNP has declined in Bulgaria, Hungary, and Poland, and has risen slightly in Czechoslovakia, East Germany, and Romania. If we assume that defense expenditures and GNP have risen at roughly the same rate during this period, then Alton's estimates suggest that in this period the actual growth of gross investment was roughly similar to the growth in GNP (i.e., a significant percentage below that derived from the GFCI series). Thus, the assumption that gross investment grew at roughly the same rate in the two parts of Europe is plausible. See Thad Alton and others, *Eastern Europe: Domestic Final Uses of Gross Product, 1965, 1970, and 1975-1981*, Occasional Paper No. 72, Research Project on National Income in East Central Europe (New York: 1982).

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sumptions we must conclude that the capital stock was growing at roughly the same rates.

Given the underlying data, it seems more plausible that the GFCI growth was roughly the same in market and in centrally planned economies. This inference is reinforced by the conclusions obtained from the direct estimates of the capital stock. Assuming that the change in utilization of capital (a stock) was about the same in East and West, I would further conclude that the growth of capital inputs (a flow) was also roughly the same.

C. Dynamic Efficiency

Dynamic efficiency is defined in different ways by different economists. I use the term in its quantitatively most accessible form, namely, the growth of total factor productivity (i.e., an index of outputs divided by an index of inputs).

If, as I believe to be the case, both labor and capital inputs were growing at the same rate in Eastern Europe and the O.E.C.D. countries, then indices of all major productive inputs were also growing at roughly the same rates. Since aggregate output was growing at roughly the same rate in East Europe and the O.E.C.D. countries, overall dynamic efficiency appears to be roughly similar in the two systems as well, other things being equal. Certain things are not equal, however.

The two sets of countries have different sectoral patterns in the use of such inputs. With regard to labor, a number of scholars have shown that in Eastern Europe, the share of the labor force in the "material" sectors (especially agriculture and industry) is much larger than in the O.E.C.D. countries; the latter have correspondingly larger "non-material" sectors.[12]

Capital investment appears to follow the same pattern, as shown in Table 6. Although we must use these data cautiously since they suffer from serious compatibility problems, it appears that, compared to the O.E.C.D. countries, the East European countries place twice the share of GFCI in agriculture and one-and-a-half times the share of GFCI in industry. On the other hand, the West places roughly one-and-a-half times the share of GFCI in "other" sectors—such as housing, services, finance and banking, and trade.

In sum, the allocation of productive inputs appears to be quite different; before making any final conclusions about dynamic efficiency,

[12] See Paul Gregory, *Socialist and Non-Socialist Industrialization Patterns* (New York: Praeger, 1971, and Gur Ofer, *The Service Sector in Soviet Economic Growth: A Comparative Study* (Cambridge: Harvard University Press, 1973).

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TABLE 6
DISTRIBUTION OF GROSS FIXED INVESTMENT, 1950-1979[a]
(Percentages)

	Number of years	*Agriculture, forestry, fishing*	*Manufacturing, mining, utilities*	*Transportation, communications*	*Other*
EASTERN EUROPE					
Bulgaria	30	16	38	16	30
Czechoslovakia	30	11	41	14	34
East Germany	30	12	50	11	27
Hungary	30	13	38	12	37
Poland	30	13	41	11	35
Romania	30	15	51	10	24
U.S.S.R.	30	17	37	9	37
Unweighted average		14	42	12	32
Yugoslavia	28	10	35	12	43
O.E.C.D.					
Australia	20	10	29	19	42
Austria	19	6	29	16	49
Belgium	27	3	30	11	56
Canada	30	7	29	17	47
Denmark	26	9	18	18	55
Finland	30	11	25	19	45
France	24	6	26	10	58
West Germany	29	5	30	15	50
Greece	30	11	22	23	44
Ireland	30	13	28	15	44
Italy	30	8	30	10	52
Japan	27	5	26	11	58
Netherlands	30	5	28	13	54
New Zealand	—	—	—	—	—
Norway	30	8	26	23	43
Portugal	25	9	38	17	36
Spain	—	—	—	—	—
Sweden	30	5	30	18	47
Switzerland	—	—	—	—	—
U.K.	30	4	35	12	49
U.S.A.	30	4	19	13	64
Unweighted average		7	28	15	50

[a] Data were calculated from official statistics for each country by determining the percentage distribution of gross fixed investment in current prices for each year, and then averaging. They are comparable only in the roughest sense, for several reasons. First, the definitions of the various sectors differ somewhat, not only between East and West, but also at different times for individual countries. Whenever possible, rough adjustments were made to achieve intertemporal comparability by trying to follow the definitions used in the late 1960s for each state. Second, O.E.C.D. data on governmental investment by sector are incomplete for many countries, especially for the 1970s; therefore, these had to be estimated. For the United States, such estimates for the 1950s and early 1960s are particularly crude. Third, other estimates had to be made for various countries, especially where national statistics did not separate investments by the sectors designated in the table above.

Sources of data are discussed in the Appendix.

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we need to take this composition effect into account. Since we do not have sufficient data to draw any direct conclusions about relative dynamic efficiency of individual productive sectors in East and West, we must make two additional assumptions. (1) For countries in both the East and the West, total measured factor productivity is lower in the nonmaterial sectors, since in many branches of the nonmaterial sectors output is measured in the national account statistics only in terms of inputs. (2) The relative differences between East and West in the share of productive inputs placed in material and nonmaterial sectors have remained roughly the same over the period.

Given these two assumptions (which I believe to be reasonable) and a roughly equal growth of total factor productivity for the economy as a whole in the two sets of countries, we may conclude that total factor productivity *in individual sectors* is probably lower in Eastern Europe than in the West. That is, the similarity in aggregate dynamic efficiency is the result of a composition effect: a larger share of productive inputs in Eastern Europe was placed in sectors with greater measured growth in total factor productivity.

If I am incorrect in my assumption about a similar growth of capital inputs, an argument based on the composition effect is unnecessary. That is, if capital inputs actually grew faster in Eastern Europe than in the O.E.C.D. countries, then total factor inputs grew faster in the East, and—given the similarity in growth of total output—overall dynamic efficiency is greater in the West.

With either assumption about the growth of the capital stock, we arrive at a nuanced version of (Western) conventional wisdom about markets leading to greater dynamic efficiency.[13]

V. Retardation of Growth

Proposition: In Eastern Europe the rate of retardation of growth appears to be roughly the same as or somewhat greater than in the O.E.C.D. countries.

To determine retardation of growth, we must recalculate the regressions on the aggregate production series. Certain other causal factors influencing growth retardation, such as the level of per capita GDP and the growth rate of the series under investigation, are posited. A regression

[13] These results falsify the argument sometimes found in the East European literature that dynamic efficiency is greater in the East because of the West's growing unemployment and more violent business cycles. The counterargument that the East European countries have a lower dynamic efficiency because of their growing underemployment of labor has received no empirical verification in this study either.

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analysis shows either no statistically significant difference between the retardation rates of the two sets of nations or, in several cases, slightly greater retardation in Eastern Europe.

To approach the retardation of growth in a quantitative fashion, let us consider the following equation:

$$Y_t = a + bt + ct^2 \qquad (1)$$

where Y_t is a point at time period t in the growth series whose retardation (or acceleration) is to be measured, and a, b, and c are coefficients to be calculated. Differentiating both sides of (1) with respect to t, we derive an expression equating the percentage rate of growth of Y_t to $b + (2c)t$ where $2c$ is the coefficient of acceleration (if positive) or retardation (if negative).

Calculations of this quadratic function were made for all countries in the sample; the "$2c$'s" are presented in Table 7, along with a designation as to whether this retardation (or acceleration) coefficient is statistically significant or not. Among other things, the table reveals a retardation of growth in both sets of states.

What types of factors should be held constant when these results are analyzed? If scientific discovery is becoming increasingly difficult, it is possible that retardation should be greatest for countries at the technological frontier, and that we should therefore include a per capita GDP variable as a proxy. Further, following the intuitive notion that fast growth cannot last forever, one might predict that retardation should be most marked in those countries that have manifested the fastest growth. The results of these experiments are presented in Table 8.

For most of the regressions, the degree of explanatory power is not great. The systems variable is not statistically significant except for GDP per economically active and for industrial production (Western data only); both show greater growth retardation in the East. If data after 1979 had been included in these calculations, it is possible that this difference might have disappeared as well. In only a few cases are differences in per capita income and average annual growth rates statistically significant.

Such results suggest that the "retardation crisis" in Eastern Europe has been overexaggerated in the Western press. The retardation of growth is quite important, however, in at least one country in Eastern Europe; namely, the U.S.S.R. For most indicators, the rate of retardation appears to be roughly the same in both systems. All economically developed states in East and West have been experiencing the same general

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TABLE 7
RETARDATION OF GROWTH, 1950-1979

	Average annual change in growth rate (percentages)					
	GDP	*GDP per capita*	*GDP per economically active*	*Industrial production*	*Agricultural production*	*Gross fixed capital investmt.*
EASTERN EUROPE: OFFICIAL DATA						
Bulgaria	—	—	—	−0.240*	−0.282*	−0.288*
Czechoslovakia	—	—	—	−0.130*	−0.223*	−0.163*
East Germany	—	—	—	−0.184*	−0.080*	−0.401*
Hungary	—	—	—	−0.062*	−0.004	+0.014
Poland	—	—	—	−0.038	−0.111*	+0.071
Romania	—	—	—	+0.035	+0.042	−0.125*
U.S.S.R.	—	—	—	−0.201*	−0.252*	−0.292*
Unweighted average	—	—	—	−0.117	−0.130	−0.189
EASTERN EUROPE: RECALCULATED DATA						
Bulgaria	−0.124*	−0.102*	−0.154*	−0.388*	−0.207*	—
Czechoslovakia	−0.104*	−0.080*	−0.096*	−0.171*	−0.075*	—
East Germany	−0.132*	−0.167*	−0.169*	−0.239*	−0.027	—
Hungary	−0.099*	−0.088*	−0.093*	−0.207*	−0.080*	—
Poland	+0.059*	+0.113*	+0.027	−0.101*	−0.098*	—
Romania	+0.021	+0.027	+0.036	+0.034	+0.030	—
U.S.S.R.	−0.103*	−0.053*	−0.121*	−0.219*	−0.134*	−0.270*
Unweighted average	−0.069	−0.050	−0.081	−0.184	−0.084	—
Yugoslavia	+0.001	+0.014	−0.014	−0.212*	−0.058	−0.084
O.E.C.D.						
Australia	−0.049*	−0.018	−0.063*	—	—	−0.197*
Austria	−0.070*	−0.071*	−0.106*	−0.115*	−0.034	−0.217*
Belgium	+0.038*	+0.057*	+0.012	+0.039	−0.107*	−0.078*
Canada	+0.036*	+0.116*	−0.017	−0.064*	+0.028	+0.031
Denmark	−0.055*	−0.042*	−0.115*	+0.019	−0.072*	−0.311*
Finland	−0.055*	−0.016	−0.026	−0.033	−0.146*	−0.234*
France	−0.023	−0.003	−0.070*	−0.020	−0.107*	−0.192*
West Germany	−0.218*	−0.146*	−0.104*	−0.306*	−0.019	−0.473*
Greece	−0.022	−0.009	+0.024	+0.014	−0.135*	−0.351*
Ireland	+0.154*	+0.050*	+0.045*	—	—	+0.258*
Italy	−0.124*	−0.122*	−0.138*	−0.204*	−0.119*	−0.462*

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TABLE 7 (*Cont.*)

	Average annual change in growth rate (percentages)					
	GDP	*GDP per capita*	*GDP per economically active*	*Industrial production*	*Agricultural production*	*Gross fixed capital investmt.*
Japan	−0.199*	−0.216*	−0.149*	—	—	−0.458*
Netherlands	−0.042*	−0.020	−0.001	−0.052	+0.124*	−0.282*
New Zealand	−0.089*	−0.029	−0.089*	—	—	—
Norway	+0.048*	+0.065*	−0.039*	+0.040*	+0.122*	+0.039
Portugal	+0.014	−0.009	−0.110*	+0.027	−0.104*	−0.314*
Spain	+0.006	−0.007	+0.019	−0.025	−0.014	−0.320*
Sweden	−0.071*	−0.060*	−0.092*	−0.139*	−0.027	−0.268*
Switzerland	−0.185*	−0.114*	−0.031*	—	—	−0.464*
U.K.	−0.028*	−0.010	−0.018	−0.064*	−0.049*	−0.026*
U.S.A.	−0.005	−0.036*	−0.078*	−0.003	−0.001	−0.087
Unweighted average	−0.045	−0.030	−0.055	−0.055	−0.041	−0.220

* The calculated coefficient of average annual change (acceleration if positive; retardation if negative) is statistically significant at the .05 level. Sources of data and methods of calculation are discussed in the Appendix.

symptoms of growth retardation; for one or two indicators, retardation appears somewhat greater in the East.

VI. Fluctuations of Production

Proposition: Fluctuations of aggregate production appear to be roughly similar between the East European and the O.E.C.D. countries except for agriculture, where production fluctuations are greater in the East. Fluctuations of gross fixed capital investment appear roughly similar in East and West.

Although it seems to be generally assumed among nonspecialists that East European countries have experienced fairly small fluctuations in aggregate production, a different view generally prevails among specialists. While the major causes of production fluctuations in Eastern Europe are still a subject of controversy, it is known that all of the centrally planned economies have experienced considerable fluctuations

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TABLE 8

RESULTS OF REGRESSION EXPERIMENTS WITH RETARDATION RATES[a]

Dependent variable (average annual change in rates)	*Source of data for Eastern Europe*	*Constant*	*Relative level of per capita G.D.P.*	*Systems variable*	*Average annual growth*	R^2	*n*
GDP	Western	+0.277*	−0.00255*	−0.0761	−0.0342*	.2638	28
		(0.114)	(0.00102)	(0.0392)	(0.0147)		
GDP per capita	Western	+0.257*	−0.00199	−0.0561	−0.0425*	.3022	28
		(0.101)	(0.00098)	(0.0360)	(0.0137)		
GDP per economically active	Western	+0.144	−0.00199*	−0.674*	−0.0186	.2209	28
		(0.085)	(0.00082)	(0.312)	(0.0103)		
Industrial production	Western	+0.086	−0.00158	−0.155*	−0.0065	.2817	23
		(0.231)	(0.00202)	(0.059)	(0.0199)		
Industrial production	Official	+0.079	−0.00159	−0.0804	−0.0050	.1327	23
		(0.203)	(0.00181)	(0.0565)	(0.1697)		
Agricultural production	Western	−0.150	+0.00155	−0.0116	−0.0036	.1589	23
		(0.091)	(0.00109)	(0.0421)	(0.0206)		
Agricultural production	Official	−0.140	+0.00121	−0.0650	−0.0120	.1985	23
		(0.113)	(0.00136)	(0.0528)	(0.0253)		
Gross fixed capital investment	Official	+0.171	−0.00259	+0.140	−0.0402	.1211	27
		(0.272)	(0.00203)	(0.108)	(0.0244)		

[a] For the O.E.C.D. countries, the systems variable is 0; for the East European countries, 1. R^2 is the coefficient of determination; *n* is the number of countries in the sample. The standard errors are in parentheses below the calculated coefficients; an asterisk designates statistical significance at the .05 level.

The data are derived from Table 6. Yugoslavia is omitted from these regression experiments.

over time, which might possibly be as great (if not greater) than those in the West.[14]

The empirical analysis posits a number of factors other than the economic system that might influence fluctuations, but the search for

[14] Economists in both East and West have been paying increasing empirical and theoretical attention to problems of cyclical fluctuations in planned economies. An extensive history of doctrine on the subject is provided by Zoltan Sabov, *Zyklische wirtschaftliche Aktivitaetschwankungen in sozialistischen Planwirtschaften* [Cyclical variations in economic activity in socialist planned economies] (Berlin: Duncker & Humblot, 1983). Most of the theories of cyclical behavior in socialism are based either on an investment cycle approach (e.g., Josef

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these is, on the whole, unsuccessful. The regression analysis shows little difference in fluctuations between Eastern Europe and the O.E.C.D. countries, except in agriculture. Most startling is the similarity in fluctuations of gross fixed capital investment. This type of expenditure is supposed to be planned in the East so as to avoid the type of fluctuations found in the West.

The measurement of fluctuations is quite simple; it seems most appropriate to start with equation (1) (which includes a retardation factor) and to employ the standard error of estimate (SEE).[15] This is a measure of the errors of prediction, i.e., the degree to which the predicted production deviates from the trend value. The results are presented in Table 9 for four of the major series.

Considerable problems arise in trying to specify and isolate the causal factors generating differences in production fluctuations among countries. Schumpeterian notions lead us to suspect that countries with faster growth rates would also experience greater fluctuations of production—a conjecture that is validated for only some of the indicators of growth.

Goldmann and Karel Kouba, *Economic Growth in Czechoslovakia* [White Plains, N.Y.: International Arts and Science Press, 1969]) or on a planning cycle approach (e.g., Oldrich Kyn and others, "Simulation des Einflusses der Planung auf die sowjetische Wirtschaft" [Simulation of the influence of planning on the Soviet economy], *Schriften des Vereins fuer Sozialpolitik* N.F. [West Berlin, 1978] 98). A number of others have contributed to the theoretical debate: Alexander Bajt, "Investment Cycles in European Socialist Economies: A Review Article," *Journal of Economic Literature* 9 (March 1971), 53-63; N. Cobeljić and R. Stojanović, "A Contribution to the Study of Investment Cycles in the Socialist Economies," *Eastern European Economics* 2 (Numbers 1-2, 1963-64); Branko Horvat, *Business Cycles in Yugoslavia* (White Plains, N.Y.: International Arts and Science Press, 1971); Raymond Hutchings, "Periodic Fluctuations in Soviet Industrial Growth Rates," *Soviet Studies* 20 (January 1969), 331-53; Oldrich Kyn and others, "Growth Cycles in Centrally Planned Economies: An Empirical Test," in O. Kyn and W. Schrettl, eds., *On the Stability of Contemporary Economic Systems: Proceedings of the 3d Reisenburg Symposium* (Goettingen: 1979); John M. Montias, "Socialist Trade and Industrialization," in Alan Brown and Egon Neuberger, eds., *Foreign Trade and Central Planning* (Berkeley: University of California Press, 1968); Julio H. G. Olivera, "Cyclical Economic Growth Under Collectivism," *Kyklos* 13 (No. 2, 1960), 229-55; Richard Uffhausen, "Simulation von Investitions- und Planungszyklen in der sowjetischen Wirtschaft" [Simulation of investment and planning cycles in the Soviet economy], Working Paper 74 (Osteuropa-Institut Muenchen, October 1980); Peter Wiles, "Are there Any Communist Economic Cycles?" *ACES Bulletin* 24 (Summer 1982), 1-21.

A number of empirical studies have also been made: Egon Neuberger, "Is the U.S.S.R. Superior to the West as a Market for Primary Products?" *Review of Economics and Statistics* 46 (August 1964), 287-93; George J. Staller, "Fluctuations in Economic Activity: Planned and Free-Market Economies, 1950-60," *American Economic Review* 54 (June 1964), 385-95; George J. Staller, "Patterns of Stability in Foreign Trade: OECD and Comecon, 1950-63," *American Economic Review* 57 (September 1967), 879-88; Wiles (see above).

[15] Another possible measure of fluctuations is $(1 - R)^2$, which is just the SEE squared and divided by the variance of the dependent variable (a function of its growth rate). For a number of reasons, the SEE seemed a more appropriate measure for exploration of fluctuations. As one might expect, in the experiments using the $(1 - R)^2$ measure, the economic systems variable played roughly the same role.

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TABLE 9

FLUCTUATIONS IN PRODUCTION, 1950-1979[a]

	GDP	*Industrial production*	*Agricultural production*	*Gross fixed capital investmt.*
EASTERN EUROPE: OFFICIAL DATA				
Bulgaria	—	.0331	.0821	.1955
Czechoslovakia	—	.0446	.0849	.0999
East Germany	—	.0524	.0638	.0706
Hungary	—	.0547	.0899	.1639
Poland	—	.0376	.0510	.1044
Romania	—	.0427	.1144	.1017
U.S.S.R.	—	.0199	.0712	.0458
Unweighted average	—	.0407	.0796	.1117
EASTERN EUROPE: RECALCULATED DATA				
Bulgaria	.0442	.0641	.0776	—
Czechoslovakia	.0283	.0524	.0638	—
East Germany	.0311	.0401	.0669	—
Hungary	.0235	.0451	.0680	—
Poland	.0364	.0204	.0543	—
Romania	.0364	.0456	.0897	—
U.S.S.R.	.0192	.0170	.0694	.0610
Unweighted average	.0313	.0407	.0700	—
Yugoslavia	.0521	.0592	.0908	.0903
O.E.C.D.				
Australia	.0352	—	—	.0724
Austria	.0268	.0432	.0563	.0716
Belgium	.0332	.0575	.0631	.0682
Canada	.0317	.0502	.0688	.0720
Denmark	.0378	.0480	.0529	.0993
Finland	.0376	.0716	.0526	.0756
France	.0275	.0428	.0463	.0776
West Germany	.0245	.0365	.0393	.0636
Greece	.0382	.0608	.0631	.1268
Ireland	.0291	—	—	.1277
Italy	.0262	.0446	.0367	.0608
Japan	.0637	—	—	.1370
Netherlands	.0325	.0587	.0461	.0839
New Zealand	.0375	—	—	—
Norway	.0187	.0272	.0497	.0754

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TABLE 9 (*Cont.*)

	GDP	*Industrial production*	*Agricultural production*	*Gross fixed capital investmt.*
Portugal	.0428	.0583	.0412	.0780
Spain	.0575	.0783	.0493	.1110
Sweden	.0319	.0693	.0554	.0488
Switzerland	.0449	—	—	.0864
U.K.	.0176	.0310	.0405	.0824
U.S.A.	.0309	.0549	.0258	.0812
Unweighted average	.0346	.0520	.0492	.0850

[a] Fluctuations are measured by the standard errors of estimate of regression equation (1) discussed in section V. Sources of data and methods of calculation are discussed in the Appendix.

Marxists might argue that fluctuations are positively related to the level of per capita income in capitalist nations because at higher levels of economic development there are greater contradictions between the forces and relations of production. Some economists in the West have suggested that, as the level of development in centrally administered economies rises, it becomes increasingly difficult for the center to coordinate decisions; as a result, greater instabilities occur at high income levels in these countries. A per capita GNP variable was tested and turned out to be quite unimportant; in the table the results of these experiments are presented for industrial production only.

One "obvious" factor influencing the fluctuations of the GDP of a given country is the openness of its economy to international trade. A variable reflecting the ratio of exports and imports to GDP was tested and was not found to be useful in explaining the differences in production fluctuations. The stability of the GDP should also be influenced by the stability of gross fixed investment. Since the stability of the latter is influenced by the stability of the former, however, the interactions can not be properly studied except in the context of a multi-equation model, for which we do not have a sufficient number of observations.

Two factors might affect stability of agricultural production. If the land area of a country is large, agricultural fluctuations should be less influenced by meteorological events occurring in a single area; therefore, a variable reflecting the area of arable land has been included in the

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experiments. It might also be argued that agricultural fluctuations should be smaller in the East than in the West because the "cobweb phenomenon" should be less important.[16] In centrally administered economies, agricultural prices are fixed for a long time. In market economies, fluctuating agricultural prices might induce erratic production behavior among farmers; in turn, this might generate erratic behavior of prices. This argument seems spurious, however, for empirical comparisons of hog cycles in East and West show them to have the same amplitudes and lengths in both sets of countries.[17] Therefore, differential cobweb behavior should not be an important determinant of relative instabilities of aggregate agricultural production in either East or West. The correctness of this conjecture may be determined by examining the calculated regression coefficient of the systems variable.

Some of the results of the statistical experiments are presented in Table 10. The most important of these is that the calculated coefficient for the systems variable is statistically significant for agriculture only, and that in this case, fluctuations of production are greater in Eastern Europe than in the West. For the other series, the East European countries appear to have somewhat lower fluctuations; but these differences are not statistically significant.

The lack of significant differences between East and West in fluctuations of gross fixed capital investment—other things remaining the same—is the most surprising result of these experiments. Problems of interpretation arise because the investment rates and the systems variable are collinear. The raw data in Table 9 also reveal greater fluctuations of investment in Eastern Europe, however; therefore, I do not believe that such collinearity influences this key result of these experiments. Since many Keynesians designate shifts in investment as one of the major causes of capitalist business cycles, one wonders to what extent such investment fluctuations in the centrally administered economies have influenced their overall production fluctuations.

The conjectured positive relationship between average annual growth and fluctuations appears to show promise since the calculated coefficient of the growth variable is positive and, moreover, statistically significant for both GDP and gross fixed capital investment.

[16] "Cobwebs" (so called because the diagram to explain them looks like a cobweb if drawn correctly) are instabilities arising because production takes a long time (e.g., a growing season) and producers do not know the market price they will finally obtain and must estimate it. Famous cobweb phenomena include the hog cycle and the hog-corn cycle.

[17] Frederic L. Pryor and Fred Solomon, "Commodity Cycles as a Random Process," *European Journal of Agricultural Economics* 9 (No. 3, 1982), 327-47.

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TABLE 10

RESULTS OF REGRESSION EXPERIMENTS WITH FLUCTUATIONS DATA[a]

Dependent variable	*Source of data for Eastern Europe*	*Constant*	*Average annual growth of dependent variable*	*Systems variable*	*Other independent variables*	R^2	*n*
GDP	Western	+.00847 (.00690)	+.00574* (.00146)	−.00291 (.00371)	—	.3927	28
Industrial production	Western	+.00855 (.03083)	+.00474 (.00265)	−.0109 (.0078)	+.000251 YP (.000270)	.2524	23
Industrial production	Official	+.0431 (.0293)	+.00124 (.00245)	−.0144 (.0082)	+.000029 YP (.000262)	.1535	23
Agricultural production	Western	+.0691* (.0147)	+.00236 (.00277)	+.0220* (.0051)	−.00274 LL (.00177)	.5127	23
Agricultural production	Official	+.0745* (.0191)	+.00210 (.00349)	+.0326* (.0067)	−.00332 LL (.00226)	.5605	23
Gross fixed capital investment	Official	+.0293 (.0185)	+.01008* (.00316)	−.0090 (.0166)		.3836	27

[a] The fluctuations data are measured by the standard errors of estimates presented in Table 9.

YP = level of per capita GDP; LL = logarithm of arable land. For the O.E.C.D. countries, the systems variable is 0; for the East European countries, 1. R^2 is the coefficient of determination; *n* is the number of countries in the sample. The standard errors are in parentheses below the calculated coefficients; an asterisk designates statistical significance at the .05 level.

Yugoslavia is omitted from these regression experiments.

VII. DISEASES AND OTHER SPECIAL CASES

The particular economic problems of individual countries can be judged according to absolute or relative standards. The experiments in the previous pages facilitate the making of relative comparisons; to lighten the task even more, differences between actual and predicted values of various growth rates are presented in Table 11. The results not only aid us in picking out "winners" and "losers" in the "great growth competition," but also allow us to specify the particular nature of special cases. Three brief examples are presented.

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TABLE 11

PREDICTION ERRORS FOR GROWTH RATES (WESTERN DATA)[a]

	Actual minus Predicted Average Annual Growth Rates (percentages)					
	GDP (%)	*GDP per capita*	*GDP per economically active*	*Industrial production*	*Agricultural production*	*Gross fixed capital investment*
EASTERN EUROPE						
Bulgaria	+0.69	+0.61	+0.90	+2.21	+0.52	+1.36
Czechoslovakia	−0.31	−0.14	−0.04	−1.06	−0.91	−2.02
East Germany	−0.16	+0.94	+0.95	−0.63	+0.05	+0.50
Hungary	−0.93	−0.65	−0.79	−2.06	−0.69	−0.38
Poland	−0.68	−1.17	−1.49	−0.63	−0.47	+0.06
Romania	+0.88	+0.49	+0.41	+1.73	+0.28	+1.45
U.S.S.R.	+0.50	−0.09	+0.06	+0.43	+1.22	−0.97
Yugoslavia	+0.45	+0.06	−0.13	+0.54	+0.41	−1.49
O.E.C.D.						
Australia	+0.13	−0.90	−1.31	—	—	−0.84
Austria	+0.12	+0.68	+0.99	−0.56	+0.23	+0.30
Belgium	−0.34	+0.13	+0.18	−0.14	−0.81	−0.78
Canada	+0.53	−0.33	−1.00	+0.94	+0.26	−0.22
Denmark	−0.19	+0.18	+0.15	+0.37	−0.34	+0.92
Finland	−0.14	+0.21	+0.18	−0.08	−0.52	−1.10
France	+0.56	+0.59	+0.94	+0.68	+0.39	+1.34
West Germany	+0.70	+0.71	+1.26	+0.75	+0.62	+0.90
Greece	+0.84	+0.91	+1.48	+1.04	+0.87	+0.12
Ireland	−1.86	−1.48	−1.09	—	—	−1.28
Italy	−0.12	+0.01	+0.19	−0.22	+0.06	−1.65
Japan	+3.62	+3.38	+3.11	—	—	+5.56
Netherlands	+0.13	−0.11	+0.08	+0.42	+1.70	−0.23
New Zealand	−1.10	−1.87	−2.32	—	—	—
Norway	−0.30	−0.14	+0.01	−0.63	−1.65	−0.42
Portugal	−0.29	+0.04	−0.75	−0.93	−1.41	−1.21
Spain	+0.48	+0.30	+0.42	+0.86	+0.64	+0.98
Sweden	−0.20	+0.24	+0.21	+0.42	−0.92	−0.13
Switzerland	−0.61	−0.85	−1.00	—	—	−0.48
U.K.	−1.89	−1.40	−1.36	−3.21	+0.59	−1.33
U.S.A.	−0.09	−0.30	−0.37	+0.28	+0.29	−0.45

[a] Residuals of the regressions reported in Table 2. For Yugoslavia, the systems variable is assumed to be 0.5.

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A. The Soviet Disease

From the perspective of the last thirty years, the Soviet economy has performed about average in most respects. Soviet performance is roughly equal to the norm of the various growth indicators, except for agriculture (where its growth has been *higher*), and gross fixed capital investment (where its growth has been lower). Fluctuations of production (except in agriculture) have been quite low relative both to other East European countries as well as to the entire sample. The Soviet problem appears to lie in its retardation of growth, which is much greater than predicted. This retardation occurs not only for GDP per economically active, but also for aggregate industrial and agricultural production. As noted above, such economic behavior deviates from that of Eastern Europe as a whole. It suggests that the considerable capital deepening occurring in the Soviet Union has been accompanied either by increasing inefficiencies or by increasingly severe diminishing returns. In any case, both agricultural and industrial sectors appear to be reaching the end of the rapid growth that has characterized them during the last three decades.

B. The British Disease

Given its level of economic development, the U.K. has shown manifestly lower growth than normal in almost every sector except agriculture. Retardation of growth has been about what one would predict from the formulae; it has been low (given the level of economic development) because economic growth has been relatively low. Further, despite continual complaints about stop-go governmental policies destabilizing the economy, production fluctuations appear roughly equal to the statistical norm. In short, production fluctuations (and policy changes) occur in all economies, but British public opinion seems more sensitive to such matters.

C. Yugoslavia's Economic System: Fish or Fowl?

In Table 11, I have assumed that Yugoslavia's economic system is halfway between the capitalist, market system and the socialist, centrally administered system. However, if forced to make some choice about what type of economic system it actually is, we can approach the matter in an empirical fashion, following the notion that "by their fruits ye shall know them." More specifically, we can use the regression formula to calculate results if Yugoslavia had either sytsem, and then ask which results best approximate the actual performance of the Yugoslav economy.

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Such a crude discriminate analysis shows Yugoslavia to be closer to the economies of the West: for most indicators, the growth rate predictions assuming a capitalist market economy are closer to the actual results. This is true of the labor force patterns, especially with regard to female participation. In the direction of investment, Yugoslavia appears to be roughly between the two systems. For retardation, Yugoslavia's performance appears closer to that of the West for most, but not all, indicators. For fluctuations, the picture is mixed and no conclusions can be drawn. Yugoslavia's agricultural fluctuations, however, are closer to those of Eastern Europe, even though its agriculture is uncollectivized and relatively free. Perhaps the systems variable does not indicate the economic system *per se*, but rather special types of non-West European farming practices. In any case, although the overall picture is not completely unambiguous, Yugoslavia's economic performance more often appears to resemble that which we would predict from the pattern of capitalist, market economies than that of socialist, centrally administered systems. Or, to generalize from this single case, the presence of a market appears to make somewhat more difference in the performance of an economy than the pattern of ownership of the means of production.

D. A Cautionary Note

This very brief analysis of particular economic diseases is based on the empirical generalizations developed throughout this essay, namely, that aggregate growth rates, the retardation of growth, and the fluctuations of production appear to be roughly similar in Eastern Europe and the O.E.C.D. countries. If these or other economic diseases were examined more carefully, a use might be found for my conclusion that dynamic efficiency appears greater in the West, at least for individual sectors of production.

Many other analyses of economic diseases or of problems of fluctuations and growth are based on the production experience of a much shorter time period than thirty years. Differences between my findings and those of others who have focused on the short run may be due to the often forgotten fact that the short- and long-term performances of particular economies may be quite different. Without an adequate causal model of the way in which the economic performance of economies changes, we can not say *a priori* whether the short-term or the long-term results will provide better predictions for policy makers. I would note, however, that the enthusiasm often placed on short-term performance as a predictor of future performance in the long run appears premature.

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VIII. A Final Word

In this short essay I have not sought to explore the *causes* of the remarkable similarities between the production performances of different economic systems with regard to growth and fluctuations. Nor have I examined the causes underlying differences in dynamic efficiency. If the empirical propositions that I have advanced are correct, we still have much analytical work to carry out. The results of such work would advance our understanding of the impacts of different economic systems, so that we can more carefully distinguish where they are the same and where they are different.

Appendix: Statistical Notes

DEFINITIONS

All growth series are in constant prices. Whenever data on the distribution of gross fixed capital investment by sector are available, they are given in current prices.

For all the East European countries, GNP rather than GDP is the measure of aggregate production.

The industry and agriculture series are income- (or GDP) originating and therefore differ from gross production series. Industry includes manufacturing, mining, and utilities; agriculture includes farming, forestry, and fishing.

RELATIVE LEVELS OF GDP PER CAPITA

The data are calculated in a common currency and are derived from the following sources:

Irving B. Kravis, Alan Heston, and Robert Summers, "Real GDP *Per Capita* For More than One Hundred Countries," *Economic Journal* 88 (June 1978), 215-42, Tables 1 and 4; Irving B. Kravis, Alan Heston, and Robert Summers, *World Product and Income* (Baltimore: The Johns Hopkins University Press, 1982), 10; Frederic L. Pryor, "Comparable G.N.P.'s per Capita: An Addendum," *Economic Journal* 89 (September 1979), 666-69.

NATIONAL ACCOUNT, INDUSTRY, AND AGRICULTURE DATA

In all cases, various data sources are chained so as to obtain a series for the entire period. Almost all of the growth series cover 30 years; in some cases, however, data could not be found for the beginning or the end of the period. In no case do the series contain less than 25 consecutive years. For Table 6, on the distribution of gross fixed capital investment, a cutoff limit of 18 years (not necessarily consecutive) is used; the number of years is specified in the table.

For Eastern Europe (excluding the U.S.S.R.), the data are for GNP; they are drawn from the following sources: Thad P. Alton, "Production and

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Resource Allocation in Eastern Europe: Peformance, Problems, and Prospects," U.S. Congress, Joint Economic Committee, *East European Economic Assessment*, Part 2, *Regional Assessment* (Washington, D.C.: G.P.O., July 1981), 348-409; Thad P. Alton, "Economic Growth and Resource Allocation in Eastern Europe," U.S. Congress, Joint Economic Committee, *Reorientation and Commercial Relations of the Economies of Eastern Europe* (Washington, D.C.: G.P.O., 1974), 251-99; Thad P. Alton, "Economic Structure and Growth in Eastern Europe," U.S. Congress, Joint Economic Committee, *Economic Developments in Countries of Eastern Europe* (Washington, D.C.: G.P.O., 1970), 41-68; and Thad P. Alton and others, *Agricultural Output, Expenses, Gross Product, Depreciation, and Net Product in Eastern Europe, Prewar and 1950-75*, Occasional Paper 49 of the Research Project on National Income in East Central Europe (New York: 1976). These sources are supplemented by data from Wolfgang F. Stolper, *The Structure of the East German Economy* (Cambridge: Harvard University Press, 1960); United Nations, *Yearbook of National Account Statistics* (New York: United Nations, annual); and national statistical yearbooks.

Data for the U.S.S.R. are from Rush Greenslade, "The Real Gross National Product of the U.S.S.R.," in U.S. Congress, Joint Economic Committee, *Soviet Economy in a New Perspective* (Washington, D.C.: G.P.O., 1976), 269-301; and U.S. Congress, Joint Economic Committee, *Allocation of Resources in the Soviet Union and China* (Washington, D.C.: G.P.O., 1981), 286.

Data for Yugoslavia are from Vinod Dubey, ed., *Yugoslavia: Development with Decentralization*, World Bank Country Economic Report (Baltimore: The Johns Hopkins University Press, 1975); Martin Schrenk and others, *Yugoslavia: Self-Managed Socialism and the Challenges of Development* (Baltimore: The Johns Hopkins University Press, 1979). These are supplemented by several national sources.

Data for the O.E.C.D. countries are from O.E.C.D., *National Accounts of O.E.C.D. Countries, 1950-68* (Paris: O.E.C.D., 1970), and O.E.C.D., *National Accounts*, Vols. 1 and 2 (Paris: O.E.C.D., 1982). These are supplemented by several other O.E.C.D. publications, as well as national sources for certain countries.

POPULATION AND LABOR FORCE

For the O.E.C.D. countries, the data are primarily from various issues of O.E.C.D., *Labour Force Statistics* (Paris: O.E.C.D., annual), supplemented by United Nations, *Demographic Yearbook* (New York: United Nations, annual); International Labour Office, *Yearbook of Labour Statistics* (Geneva: I.L.O., annual); and I.L.O., *Labour Force: Estimations and Projections* (Geneva: I.L.O., 1977). I.L.O. sources and O.E.C.D. sources present quite different estimates for the female labor force for certain countries; in these cases, estimates are based on O.E.C.D. data.

For Eastern Europe and Yugoslavia, the data are primarily from the sources cited in Frederic L. Pryor, "A Quasi-Test of Mancur Olson's Hypotheses," in Dennis C. Mueller, ed., *The Political Economy of Growth* (New Haven: Yale University Press, 1983). They are supplemented by a

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number of other sources including the above-cited I.L.O. and United Nations publications. For several countries, the estimates for the economically active population in the late 1970s cannot be considered reliable.

SOURCES OF OTHER DATA

Data on the distribution of investment are from the above O.E.C.D. sources; from United Nations, *Yearbook of National Account Statistics* (New York: United Nations, annual); and from various national statistical yearbooks. For the United States, estimates of governmental investments are drawn from different official statistical sources.

Data on arable land are from Food and Agricultural Organization, *Production Yearbook* (Rome: United Nations, annual). Trade data are from UNESCO, *Handbook of International Trade and Development Statistics 1979* (New York: 1980).

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COMMUNISM AND CLIENTELISM: Rural Politics in China

By JEAN C. OI*

DESPITE its widespread currency in political science, the concept of clientelism has rarely found its way into the literature on communist systems. Students of communist politics regularly note the importance of personal ties, and many recognize the significance of informal bonds in economic and political spheres at *all* levels of society.[1] Some even apply the term "clientelism" to the political behavior they describe. Yet these studies are generally limited to elite-level politics, to factionalism, career mobility, recruitment patterns, and attainment of office at the top- to middle-level echelons of the bureaucracy.[2] Few have considered clientelism as a type of elite-mass linkage through which the state and the party exercise control at the local level, and through which individuals participate in the political system.

Studies of control and participation in communist systems have been guided primarily by variants of the totalitarian or interest group models

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[1] Franz Borkenau, "Getting Behind the Facts Behind the Soviet Facade," in Sidney Ploss, ed., *The Soviet Political Process: Aims, Techniques, and Examples of Analysis* (Waltham, MA: Ginn & Co., 1971); Hedrick Smith, *The Russians* (New York: Times Books, 1976); Zygmunt Bauman, "Comment on Eastern Europe," *Studies in Comparative Communism* 12 (Summer/Autumn 1979), 184-89; Fox Butterfield, *China: Alive in the Bitter Sea* (New York: Times Books, 1982).

[2] T. H. Rigby, "The Soviet Leadership: Toward a Self-Stabilizing Oligarchy," *Soviet Studies* 22 (October 1970); T. H. Rigby, "The Need for Comparative Research on Clientelism: Concluding Comments," *Studies in Comparative Communism* 12 (Summer/Autumn 1979), 204-11; Andrew J. Nathan, "A Factionalism Model of CCP Politics," *China Quarterly* 53 (January-March 1973), 34-66; John Willerton, Jr., "Clientelism in the Soviet Union: An Initial Examination," *Studies in Comparative Communism* 12 (Summer/Autumn 1979), 159-211; Jacek Tarkowski, "Poland: Patrons and Clients in a Planned Economy," in S. N. Eisenstadt and Rene Lemarchand, eds., *Political Clientelism, Patronage and Development* (Beverly Hills, CA.: Sage Publications, 1981); R. H. Baker, "Clientelism in the Post-Revolutionary State: The Soviet Union," in Christopher Clapham, ed., *Private Patronage and Public Power: Political Clientelism in the Modern State* (New York: St. Martin's Press, 1982).

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of politics. The totalitarian model's stress on the absolute power of the communist party highlights elite efforts to mobilize and control non-elites, but it obscures non-elite efforts to influence elites, affect policy implementation, and pursue interests. Non-elites appear to be atomized and defenseless against the state's pervasive power. The interests of the masses are assumed to be identical to the aims of the party-state; independent claims are either suppressed or left unmet. The masses are politically passive actors in this "administered society."[3]

The interest group model presents a much more diverse picture of communist politics. Its advocates argue that various discernible groups have inputs into the process of policy formulation, particularly since Stalin's death.[4] Terms such as "institutional pluralism" have been used to describe a Soviet system in which certain interest groups, especially elite bureaucratic actors, influence the policy-making process.[5] Students of Chinese politics have extended the model to study the way mass groups—such as workers, students, and peasants—make demands on and participate in the political system.[6]

In this essay, I do not dispute the interest group model's contention that non-elite groups pursue their interests, and at times successfully, in very diverse ways. But I do question whether the "group" is the basis of politics.[7] Studies of political participation and elite-mass linkages have shown that in developing countries, where the formal channels for

[3] The "totalitarian" model encompasses a number of variations. The major elements presented here are based on Friedrich and Brzezinski's classic formulation in Carl J. Friedrich and Zbigniew Brzezinski, *Totalitarian Dictatorship and Autocracy* (Cambridge: Harvard University Press, 1956). The idea of an "administered society" is a modified version which de-emphasizes the reliance on terror, but basically accepts the major premises of the classic totalitarian model. See Allen Kassof, "The Administered Society: Totalitarianism Without Terror," *World Politics* 16 (July 1964), 558-75.

[4] H. Gordon Skilling and Franklin Griffiths, *Interest Groups in Soviet Politics* (Princeton: Princeton University Press, 1971); H. Gordon Skilling, "Interest Groups and Communist Politics Revisited," *World Politics* 36 (October 1983), 1-27.

[5] Jerry F. Hough, "The Soviet System: Petrification or Pluralism?" in Hough, *The Soviet Union and Social Science Theory* (Cambridge: Harvard University Press, 1977), 19-48.

[6] Michel Oksenberg, "Occupational Groups in Chinese Society and the Cultural Revolution," in Michel Oksenberg, Carl Riskin, Robert Scalapino, and Ezra Vogel, *The Cultural Revolution: 1967 in Review* (Ann Arbor: Michigan Papers in Chinese Studies, No. 2, 1968); Marc Blecher, "Leader-Mass Relations in Rural Chinese Communities: Local Politics in a Revolutionary Society," Ph.D. diss. (University of Chicago, 1977); John Burns, "Elections of Production Team Cadres in Rural China, 1958-1974," *China Quarterly*, No. 74 (June 1978), 273-96; John Burns, "Chinese Peasant Interest Articulation, 1949-1974," Ph.D. diss. (Columbia University, 1979); Hong Yung Lee, *The Politics of the Chinese Cultural Revolution: A Case Study* (Berkeley: University of California Press, 1978); Victor Falkenheim, ed., *Citizens and Groups in Chinese Politics*, Michigan Monographs in Chinese Studies (Ann Arbor, Center for Chinese Studies, forthcoming 1985).

[7] For a parallel critique, see Carl Landé, "Group Politics and Dyadic Politics: Notes for a Theory," in Steffan W. Schmidt and others, eds., *Friends, Followers, and Factions: A Reader in Political Clientelism* (Berkeley: University of California Press, 1977), 506-10.

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meaningful participation and interest articulation are weak, individuals regularly pursue their interests through the use of informal networks built upon personal ties. Peasants, for example, are integrated into national politics primarily through clientelist political structures.[8] I shall argue that, in communist states, local politics is also likely to be structured along clientelist lines since formal channels for meaningful political participation by groups or individuals are weak in such systems.

Unlike the totalitarian and the interest group models, the clientelist model focuses on the political behavior of *individuals* in dyads. Participation is viewed not merely as formal input into the policy-formulation process. The line of inquiry focuses on the myriad ways in which non-elites try to affect the policy *implementation* process and to further their particular interests. Rather than end with the finding that formal channels of participation are usually not effective, the clientelist model begins from that point in searching out the strategies that non-elites use to supplement or circumvent official channels. Unlike the totalitarian model, which assumes an atomized society and politically neutralized non-elites, the clientelist model hypothesizes a rich field of patron-client ties through which individuals pursue their interests.

From the clientelist perspective, power is routinely exercised through the allocation of opportunities, goods, and various other resources over which the elite have monopolistic control and on which the non-elite are dependent. In contrast to the totalitarian model, which views control in communist systems as formal, impersonal, and from the top down, the clientelist model assumes considerably more flexibility, subjectivity, and personal sentiment in the exercise of control, which may or may not result in effective implementation of the state's policy objectives.

Previous studies make clear that clientelism exists in different forms.[9] The present task is to describe the form clientelism takes in a centralized planned economy with a strict egalitarian communist ideology. One analyst of rural China argues that clientelism is neither a "helpful tool for the analysis of contemporary rural Chinese politics," nor "a useful way to characterize elite-mass relations at local levels in China."[10] He

[8] John Duncan Powell, "Peasant Society and Clientelist Politics," *American Political Science Review* 64 (June 1970), 411-25; James C. Scott, "Patron-Client Politics and Political Change in Southeast Asia," in Schmidt (fn. 7), 123-46; Rene Lemarchand and Keith Legg, "Political Clientelism and Development: A Preliminary Analysis," *Comparative Politics* 4 (January 1972), 148-78.

[9] *Ibid.*; James C. Scott, "Political Clientelism: A Bibliographic Essay," in Schmidt (fn. 7), 483-505; Anthony Hall, "Patron-Client Relations: Concepts and Terms," *ibid.*, 510-12; Carl Landé, "Introduction: The Dyadic Basis of Clientelism," *ibid.*, xiii-xxxvii.

[10] John Burns, "Comment on China," *Studies in Comparative Communism* 12 (Summer/Autumn 1979), 190-94, at 193.

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sees clientelism as arising in peasant societies mainly out of a concern for subsistence. Consequently, the "argument that patron-client relations characterize subsistence peasant society no longer applies to China (if it ever did), simply because *most* peasants in contemporary China do not live at subsistence levels."[11] A concern for subsistence, however, is not the only rationale for clientelism; nor will guarantees of subsistence be sufficient to eliminate clientelism. I argue that under socialism a different type of dependence gives rise to a form of clientelism characterized by interest-maximizing rather than risk-minimizing strategies.

The premise is that the political behavior of peasants is closely tied to the economic realities of their daily lives. The economic environment of the village, which centers on the distribution of private and collective goods, is the basis of political authority and forms the core of the clientelist politics.[12] Political behavior revolves around this process of distribution. Indeed, "politics" is defined as activity designed to affect the locus of these resources.

The present analysis is based on a case study of Chinese peasant politics.[13] The focus is on the period between 1955 and 1979, after the collectivization of agriculture and before the recent reforms that have begun to dismantle the collectivized agricultural structure. In the first part of this article, I describe the villages' economic and political structure that gives rise to clientelism. I examine the team leaders' power over income opportunities both inside and outside the collective unit, and the degree of personal control over the distribution of welfare funds and basic goods officially allocated to peasants under the rationing system.

In the second part, I consider what difference, if any, the socialist context makes with regard to the phenomenon of clientelism. After outlining the defining features of socialist clientelism, I will describe the peasants' strategies and pursuit of interests in a system of clientelist rule. In the conclusion I will spell out some of the implications of this study for understanding clientelism as a general phenomenon, and for the

[11] *Ibid.*

[12] This aspect of clientelism has most usefully been explicated in S. N. Eisenstadt and Louis Roniger, "Patron-Client Relations as a Model of Structuring Social Exchange," *Comparative Studies in Society and History* 22 (No. 1, 1980), 42-77.

[13] The research on which my arguments are based consists of Chinese press accounts, government documents, observations in China (1980, 1982, and 1984), and interviews in Hong Kong (1979-80 and 1984) with former rural residents from various parts of China whose experience ranged from provincial-level cadres to work team members, team leaders, and ordinary peasants. The Hong Kong interviews were with 52 people for a total of over 400 hours. A detailed account of my 1979-80 interviewing project, including a breakdown of the background characteristics of my interviewees, may be found in Jean C. Oi, "State and Peasant in Contemporary China: The Politics of Grain Procurement," Ph.D. diss. (University of Michigan, 1983).

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study of elite-mass relations in communist systems. My aim is to broaden the literature on clientelism; at the same time, the model should be viewed as a useful framework for understanding communist, and specifically Chinese communist, micro-level politics.

The Economic and Political Bases of Socialist Clientelism

Eisenstadt and Roniger state that

> social actors show, in those societies in which the clientelist model is predominant, a relatively low degree of autonomous access to the major resources needed to implement their goals and to the control, in broader settings, of their own resources.[14]

Chinese peasants, I would argue, operate in similar circumstances. Shortly after coming to power in 1949, the Chinese Communist Party moved toward complete centralization of the economy in an attempt to achieve a more equitable distribution of resources, increase outputs, and improve management of production. Central to this effort was the creation, in the 1950s, of a state grain monopoly, the institutionalization of a comprehensive system of grain rationing, and the formation of people's agricultural communes.

These policies facilitated state management of production and extraction of grain in peasant villages, allowed for more stable grain supplies for all parts of China, and prevented mass migrations from rural to urban areas, a problem common to developing countries.[15] Peasants now had better guarantees for subsistence, but at the cost of dependence on their assigned production team, their collective production unit, and specifically on their team leader, for their collective and private incomes as well as for relief and loans.[16] The situation is similar to what Eisenstadt and Roniger refer to as the "monopolization by the patrons of . . . access to the means of production, major markets and centers of the society."[17]

The following chart summarizes the routine duties of team leaders and the *legal* authority granted to them by the state over key elements of peasant livelihood. The team leaders' control over the distribution of these resources is the new basis of clientelism in the Chinese countryside.

[14] Eisenstadt and Roniger (fn. 12), 64.

[15] A. Doak Barnett, with a contribution by Ezra Vogel, *Cadres, Bureaucracy, and Political Power in Communist China* (New York: Columbia University Press, 1967), 394-98.

[16] Sulamith Heins Potter, "The Position of Peasants in Modern China's Social Order," *Modern China* 9 (October 1983), 465-99, at 467, states that peasants were "forbidden to leave the land." The grain supply system effectively reinforced this prohibition. The grain ration coupons that peasants needed to buy food outside of the team at other than high prices had to be secured from brigade or higher-level officials.

[17] Eisenstadt and Roniger (fn. 12), 50.

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Collective Income	*Private Income*	*Welfare and Loans*
Distribution of officially allotted basic grain ration	Assignment of private plots	Distribution of state relief
Allocation of work points through assignment of work or work grade	Permission for private employment opportunities in urban and rural areas	Distribution of team relief
	Loan of collective tools and animals for use on private plots	Granting of money and grain loans

Team Leaders' Control Over Peasant Income

Team leaders are a local elite whose authority derives from their office, and whose power rests on their ability to influence the distribution of rewards in collective agriculture. The degree to which team leaders can capitalize on their official positions varies, but unscrupulous team leaders have the potential and the power base to become "local emperors" (*tu huangdi*) in China's countryside.[18]

Collective Income

In most areas of China, after a series of measures to reorganize communes following the Great Leap Forward, the production team became the basic unit of production, accounting, and ownership. As a collective unit, it was responsible for agricultural production, payment of the agricultural tax, and fulfillment of the grain sales quotas.[19] Col-

[18] This is a term used by Chinese peasants to describe autocratic local-level officials.

[19] The size of the team was equal to or smaller than the traditional peasant village. It was a relatively small, stable, economic and social organization composed of a group of between 20 and 50 households with an average population of 143 people, some of whom were related, or at least were longtime acquaintances. The numbers vary considerably, however. Official Chinese statistics can be found in *Zhongguo Jingji Nianjian 1981* (Beijing: Jingji guanli zazhi she, 1981), chap. 6, p. 9.

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lectivization, coupled with rationing of almost all basic commodities, meant that the individual peasant's endeavor and money were no longer sufficient to secure the essentials of livelihood. Participation in collective labor and team membership became the only means of obtaining grain outside of the black market, where prices were high and supply uncertain.[20] The amount of collective labor contributed by each peasant was measured by work points, which were calculated in cash value to cover the cost of rations, such as grain, oil, and vegetables distributed to a peasant household; any excess cash value was paid in money.[21]

Under a standard work-point system, collective labor was divided into various tasks of unequal work-point value and difficulty.[22] Certain jobs were worth few work points and were both difficult and time-consuming—work that peasants termed as "hard to chew (take)" like "pig bones." The peasant assigned to such tasks expended much energy but received relatively small reward for his efforts. In contrast, another peasant could be assigned to a prestige job, such as tractor driver, which not only paid high work points but was physically less exhausting. Other jobs—such as collecting manure—offered high work points, but were shunned because of the nature of the work. The ideal job assignment was one that paid a maximum reward for minimum effort.

The Dazhai work-point system was meant to avoid the inequalities created under the piece- and time-rates and to compensate for workers' physical inequalities.[23] Under this system, different work-point values for each task were abandoned in favor of overall performance ratings for each peasant. Political attitude and class background became relevant in assigning work ratings and evaluating performance in order to minimize differences in physical ability. Poor work performance translated into manifestations of political problems.

[20] Only in cases such as the "five guaranteed households," where the peasant was incapable of work, was the work-point requirement waived. Rations were provided free of charge to the "five guaranteed households" by the team and the brigade.

[21] Whether or not a peasant actually received his cash payment due for that year's work depended on a number of factors, such as the team's financial solvency and whether the individual peasant household had any outstanding loans. If the team was in debt or needed cash to pay for collective expenses, peasants would be given an I.O.U. In some teams, peasants went for years without receiving any cash or only a small portion of the money they were owed. In addition, a peasant's work points could not automatically be converted into grain. Ceilings existed on the amount of grain a peasant could secure. See Oi (fn. 13), chap. 3, for details of this system.

[22] The system described here is only one of a number of different wage systems. The most comprehensive study of the various work payment systems is Frederick William Crook, "An Analysis of Work Payment Systems Used in Chinese Mainland Agriculture, 1956-1970," Ph.D. diss. (Fletcher School of Law and Diplomacy, 1970); also see Andrew J. Nathan, "China's Work-Point System: A Study in Agricultural 'Splittism'," *Current Scene* 2 (April 15, 1964), and Martin K. Whyte, "The Tachai Brigade and Incentives for the Peasants," *Current Scene* 7 (August 15, 1969).

[23] Whyte (fn. 22).

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Although the Dazhai system adjusted for differences in physical ability, it failed to alleviate the differences between jobs. Peasants who were considered to be of a similar work grade, but not necessarily similar physical ability, received the same general work-point rating; those judged to be the "best" laborers received 10 points for a day's work. However, the difficulties of the tasks assigned to the "best" laborers were not necessarily equal. There was still leeway for some to be assigned to more difficult or unpopular tasks than others. One laborer with a 10-rating could be a tractor driver, while another with a 10-rating could be assigned to carry manure. As in the earlier standard work-point system, those assigned to the more difficult tasks had to expend more energy. In addition, under the Dazhai system, if a peasant failed to do one of his assigned tasks well, he would be vulnerable to having his *overall* work rating lowered for falling short of high work performance. Those assigned to relatively simple jobs could easily excel in their tasks and live up to their assigned rating; they could even demand to be promoted to a higher rating if they had not yet reached the 10-level.

Some of the most sought-after jobs were nonagricultural, in commune, brigade, or team-run collective enterprises. For example, peasants sought to work in team orchards, brigade-run electrical switch factories, or commune-run plastic handbag factories as a step up the social and economic ladder. Such jobs offered stable salaries, the highest work-point ratings, and better hours and working conditions. The workers were not exposed to the elements, did not have to wade knee-deep in mud or water, and generally did not expend as much physical effort. These jobs, however, were few. The 1979 figures, which reflect the post-1976 push toward diversification of the economy and development of sidelines, indicate that only 9.4 percent of the peasants were engaged in collective enterprises.[24] The percentage must have been considerably smaller before 1976, when there were relatively few collective sideline industries and most of the team activity consisted of agricultural work.

In areas of high population density, there was the additional problem of too much labor and not enough land—a situation that was aggravated after the mid-sixties, when sideline enterprises were restricted because of political considerations. There literally was not enough work to go around. In certain parts of Fujian and Shandong Provinces, where labor was abundant and land scarce, the issue was not only the *kind* of work assigned, but the *amount* of work allocated.[25]

[24] Of this 9.4%, 30% worked in agricultural enterprises, 51.82% in industrial collective enterprises, and 5.5% in transport. *Zhongguo Baike Nianjian 1980* (Beijing and Shanghai: Zhongguo baike quanshu chuban she, 1980), 355.

[25] The frequency of this problem is hard to ascertain. Even within the same brigade,

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Whether there was a labor surplus or not, the allocation of agricultural work and opportunities was the prerogative of individual team leaders in their role as production managers. Each morning the team leader would blow his whistle to signal the start of the workday. Team members would meet under the village tree or at the village gate to be told their day's work assignment, or to look at the assignment sheet posted by the team leader.

When there was a shortage of work in labor-surplus areas, additional allocation procedures were adopted. In some instances, lots were drawn; in other instances, the team leader assigned the right to work to specific households. Various objective criteria, such as the size of the household, costs of distributed rations, and the amount of outside income (particularly remittances from overseas relatives) were used to determine the number of workdays or work points each household was allowed per month. In one team, an approximate limit was established so that each household could earn no more than 50 to 60 work points per month—an amount that was far from sufficient to cover basic costs.

Interviewees stressed that when extra work did exist, it was left to the team leader's discretion to allocate the jobs and the accompanying work points. A peasant from Fujian Province reported that in his team, when sidelines were banned, the team leader's entire family—wife, two sons, two daughters, and a daughter-in-law—were always assigned work and thus received more work points than other families, while one-third of the rest of the team had to go outside the collective to search for jobs. In some labor-surplus areas, women were seldom allowed to work in the fields, except during harvesting when all labor power was needed.[26] In sum, the team leader determined not only the type of work a peasant was assigned, but the opportunity to work.

Private Income

In addition to being able to affect collective income, a team leader could affect a household's private income. While the desirability of a team job was determined by its work-point value, another consideration

some teams were short of labor while others suffered from the surplus described above. For example, in one brigade in Fujian Province, only five out of nineteen teams were not land-short. In those five, many of the peasants had migrated abroad. In labor-short teams, peasants from labor-surplus areas were sometimes hired by various team members to "help" farm their assigned plots of land once the fields had been divided under the responsibility system. These "hired laborers" were paid three meals a day, cigarettes, and drink—all worth approximately one *yuan*.

[26] In this example, the lack of work was directly attributed to the curtailment of the team's once lucrative sideline industries. Prior to "taking grain as the key link," the team did not have a problem of surplus labor.

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was the amount of free time it left for sideline work. Peasants had to balance their need to work for the collective with the need for free time to earn private income.[27]

The sale of goods produced on private plots, or earnings from private sideline activities in the rural or urban areas, provided peasants with a private income. Legal restrictions on peasant earnings from private sidelines have varied over the years. The size of private plots has been a major issue of controversy. In the late 1960s, all private plots in some areas were abolished and put into collective production.[28] Regardless of the limits on private enterprise in different periods, the team leader at all times could directly and indirectly affect the income opportunities from private plots and private sidelines.

Private plots. In some teams, private plots were allocated by the team leader; in others, they were allocated by lot. The assignment of plots was important because they were not of equal quality and desirability: distance from peasants' homes, fertility of land, and distance to water sources determined their value. An unlucky peasant who was assigned a plot far away from his home had to spend more time traveling; that cut into the time available for tending the crop. It was difficult, for example, to use an extra few minutes during lunch to weed or water—work that a team member with a closer plot could do easily without reducing his contribution to collective labor (and therefore his work points) or incurring the team leader's anger for missing work.

In some teams, private plots were reassigned annually, in others only every few years, and in some never. In teams that reassigned private plots annually or every few years, a peasant family might spend time and resources to cultivate, weed, fertilize, and generally improve the land—only to have the team leader appropriate that plot a year or two later; alternatively, he could assign the plot to another family or make it part of the collective fields. The household from which the land was taken would be given another plot of equal size, but not necessarily of equal quality.[29]

In addition, the team leader could indirectly affect the output of individual private plots by controlling access to collective tools and animals, such as oxen, which individual team members needed to plough their plots. First use of the team's few animals or tools is essential to a

[27] See William Parish and Martin King Whyte, *Village and Family in Contemporary China* (Chicago: University of Chicago Press, 1978), 119-21.

[28] *Zhongguo Baike Nianjian 1980* (fn. 24), 337.

[29] To reassure peasants and encourage them to invest in their fields, a 1984 directive guarantees the use of contracted fields for a period of 15 years without fear of appropriation. "Circular on Rural Work in 1984," *Beijing Review*, February 20, 1984, p. 6.

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successful crop, since proper timing is so important in agricultural work. Use of the collective animals was facilitated for a family that was assigned the task of grazing the horses or oxen: the family not only received a few extra work points for this easy task, but could take advantage of its custody of the animals and use them on its private plot before collective work officially began for the day.

In certain parts of north China, private plots were not allotted on an individual basis. Instead, "private plots" were collectively farmed and the harvest divided among the individual households. This solved the problem of the differences in plots, but peasants in such situations were fully dependent on the collective for this portion of their "private" income.

Private sidelines. A second way in which a team leader could affect a peasant's private income was to control access to opportunities for outside employment—including sideline work and contract labor, and perhaps work in the city—which promised increased income. Transport work, for example, was and still is one of the most lucrative private sidelines. A peasant who owns a mule and a wagon can earn a sizable income through hauling goods privately for teams and individual peasants who need to take large amounts of produce to market. A team leader from a particularly poor area in north central China reported that transport work yielded ten times the income earned by working in the fields—about 7 to 8 *yuan* per day. The same opportunities existed for those who had carpentry and masonry skills. These jobs produced high incomes, but they also cut into the collective labor time required of each team member. Peasants had to be excused from their collective work obligations by the team leader before they could take advantage of such opportunities.[30]

Peasants who wanted extra time for sideline work typically would go to the team leader and ask for time off from their collective duties by saying that "they had (other) business" (*you shi*). Team leaders were well aware of what kind of business it was. They took the team's economic conditions, labor needs, and season into consideration when granting permission. In Fujian Province, where there was a surplus of labor, team leaders had no choice but to let peasants work outside the collective agricultural system. The same was true during periods of severe food shortage, when some team leaders had to allow team members to go begging for food and find whatever income they could. Teams

[30] The actual authorization (*zheng ming*) is issued by the brigade.

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near industrialized urban areas also tended to allow their adult males to work in lucrative jobs at the nearby factories.

Contract labor jobs in urban areas were particularly attractive because in some cases they offered an opportunity of temporarily moving to the city. When a company in an urban area announced that it needed a certain number of laborers, it was usually left up to the local commune, brigade, or team cadres to suggest people for the positions unless the job called for people with special expertise. The brigade leader and commune official played an important role in selecting the workers, but the recommendation of the team leader was usually a necessary precondition.

Regardless of the exact circumstances, in most cases the peasant who went outside to work was required to return during the busy season to help with the harvest. In instances where a peasant was allowed to spend a major portion of his time in outside employment, he had to pay compensation for loss of his labor to the team.

The amount that teams received from a peasant's outside earnings varied. In one team, the amount of one *yuan* per day had to be turned over. In return, the team leader gave the peasant the maximum ten work points a day and his grain rations. In other cases, a set percentage was taken out. For example, peasants from a team in Guangdong Province who went to Guangzhou (Canton) as temporary workers in 1974 were allowed to keep approximately 30 percent of their wages. One-half of the rest of their wages went to their team, and the remaining half to the brigade and the commune.

If a peasant tried to engage in outside labor without the team leader's approval, the latter had the power to withhold his grain rations. The peasant would then be forced to buy black-market grain, which costs considerably more than rationed grain. An extreme example, from 1970, concerns a north China team that was composed of two surname groups, of Han and Hui nationality. The team leader was a Han, as was the majority of the team. Relations between the two groups were poor. Many of the Hui nationality, instead of working in the team where the cash rewards were small, ignored their collective agricultural duties against the team leader's orders to ply their butchering skills and sell meat at the local markets. Fighting broke out when the Hui returned to the team and found that the Han team leader had cut off the grain rations of their families. The situation became so serious that the army had to be brought in to settle the disturbance. These circumstances were unusual; tensions were heightened by the ethnic factor and complicated

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because the team leader had molested the wife of one of the absent Hui peasants. The method of withholding grain rations, however, was a common means used by team leaders to exert control and ensure participation in collective labor.[31]

Welfare: Loans and Relief

If a peasant could not make ends meet through labor, theoretically there was the possibility of obtaining welfare from the team. The team's limited welfare funds were drawn either from the team's local grain reserve (*chubei liang*) or from the all-purpose utility fund (*jidong liang*). A team's reserves provided an unofficial margin of security that helped the team leader meet conflicting demands for grain, but it had to be used wisely. Even if there were no demands for extra grain from the brigade or the commune, the team leader still had to decide whether to use the reserves for the collective expenses, such as purchasing new machinery, or for individual loans. Team leaders operated with tight budgets and seldom had sufficient funds to satisfy all the conflicting demands for grain.[32]

The power to allocate welfare and relief, like other team resources, was concentrated in the hands of the team leader. He issued all team loans; in the event of a severe disaster warranting state relief, he distributed any aid received from the upper levels. Those qualifying for the welfare status of "five guaranted households" did not need to worry; their needs, including grain, were automatically provided. Where there was some question, however, as to whether a peasant should be granted welfare status, the team leader gave the final approval. The same was true for attaining the more controversial status of "economically distressed household" (*kunnan hu*).

The granting of aid and the process of borrowing were to a large extent personal interactions between team leader and team member. The needy peasant would typically approach the team leader, tell him his problems, and ask for a loan. Sometimes this procedure was repeated several times before a loan was granted, if at all. Officially, the team leader needed higher approval before a loan could be granted; in practice, as the person charged with the management of production, the team leader controlled all the team's reserves and decided on their disposition. Loan applications never reached the higher levels for approval without the team leader's recommendation. A peasant might try to go around

[31] Steven Butler, "Conflict and Decision Making in China's Rural Administration 1969-76," Ph.D. diss. (Columbia University, 1979), 90-93.
[32] Oi (fn. 13), chaps. 2 and 6.

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the team leader to the granary manager or the accountant, who in some teams was authorized to give out small loans, but the chances for securing any substantial amount were slim without the team leader's approval.

During severe food shortages, favoritism on the part of the team leader could figure prominently in a peasant's ability to survive. In famine situations, such as the "three lean years" during the Great Leap Forward, the receipt of a loan or an extra scoop or two of grain could make the difference between life and death. For example, during the "three lean years," one team in north China lost half of its working peasants (*laodong li*) to food shortages and related illnesses, such as edema. Before 1962 there were 70 working peasants in the team; after 1962 there were only 35. According to a former team member, those who survived the famine did so because they had stored up extra grain, had stolen grain, or had been favored by team cadres. The team leader had given certain team members a little extra grain or invited them to eat with his family (which always seemed to have sufficient grain). As might be expected, the granary manager—who, because of his position had direct access to grain—also suffered little during the grain shortage. What was perhaps equally important was, as our interviewee termed it, that "he and the team leader wore the same pants" (*chuan yitiao kuzi*)—meaning that they were on very good terms and provided each other with special favors. Other friends of the granary manager also fared relatively well during the famine.[33]

Team leaders could also practice more subtle forms of discrimination in the distribution of rationed goods. Manipulation in such cases could involve the amount and the *quality* of the goods distributed. A team leader could show his displeasure by giving certain peasants level scoops of inferior-quality grain rather than rounded scoops of higher-quality grain. (The distribution of grain was often done by the granary manager or the accountant, but during harvest time the team leader personally took charge in some teams.) The unfortunate recipient could not say he had been cheated, since he had received the minimum amount specified under the official guidelines.

Defining Features of Socialist Clientelism

A system of personal relationships, face-to-face contacts, and exchanges between persons of unequal status (team leaders and their team members) thus mediates the exercise of authority in Chinese villages.

[33] In this team, conditions were particularly severe because cadres at all levels, from the team to the commune, had engaged in "over-reporting." As a result, 80% of the harvest was sold to the state in 1960.

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The Chinese term for the cultivation of personal relationships with those in positions to control the allocation of desired goods, opportunities, and resources is using *guanxi* or *ganqing*. Both of these expressions may be roughly translated as having "connections," or a personal relationship with someone. But these terms do not translate well into English, and are better left in the original.

The reader should be warned that *guanxi* and *ganqing* are not equivalents; and neither necessarily indicates a patron-client relationship. Having *guanxi* or *ganqing* with someone can represent either a horizontal or a vertical dyadic alliance. It can be a special system of exchange between persons of equal or unequal status, and it can be clientelistic or non-clientelistic. *Guanxi* may be compared to the Russian *blat* or the Haitian *pratik*.[34] It suggests a somewhat casual and nonpermanent alliance. *Ganqing* comes closer to describing a clientelist type of relationship, but it can also refer to a strong horizontal dyadic alliance. These terms are of limited use in trying to define a "clientelistic" relationship because the terms *guanxi* and *ganqing* are applied indiscriminately by Chinese to all forms of personal ties. A subset of these relationships is "clientelist" in the way defined here, however.

Patron-client systems in the Chinese countryside—as in other political systems that exhibit strong clientelist patterns—are addenda to existing institutional arrangements that allow peasants to pursue individual interests not met by the system of collectivized agriculture and rationing and to receive special consideration in the distribution of goods and rewards from those in positions of authority.[35] The degree to which peasants use this informal system varies, as does their dependence on those in positions of authority.

The use of personal relationships to pursue one's interests is so prevalent in China that it is "almost legal"; one's ability to use connections to go through the back door is a mark of status and intelligence. One respondent said, "a private seal (meaning personal connections) is better than a public stamp." It may be considered the "operational code" for how best to get things done in the countryside. As a former team leader summarized it, "people always talk about who has good relations (*guanxi*) with whom and therefore who should talk to whom about getting something done." Thus, in some cases, use of patron-client relationships

[34] On *blat*, see Joseph Berliner, *Factory and Manager in the USSR* (Cambridge: Harvard University Press, 1957); on *pratik*, see Sidney Mintz, "Pratik: Haitian Personal Economic Relationships," in Jack Potter, May Diaz, and George Foster, eds., *Peasant Society: A Reader* (Boston: Little, Brown, 1967).

[35] This discussion of clientelism as addenda follows Landé (fn. 9).

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goes beyond being an addendum: it becomes the key to making the best of a hard life in China's countryside.[36]

In this as in other clientelist systems, those who control different resources command different degrees of power and derive different opportunities for benefiting from their positions of power.[37] Chinese peasants who seek to get ahead know well who holds what power. On a relative scale, the status of the team leader is low; the brigade leaders or commune leaders hold much more power. But it is the team leader who has the most direct impact on each peasant's basic well-being since he determines the re-assignment or appropriation of private plots, assignment of better jobs, extra work points, an outside job, a contract labor job, or receipt of a loan from the extra grain or cash the team has managed to put aside.

Limits on Peasant Dependence

Although peasants are tied to their production teams, the nature of their dependence differs from that of clients in noncommunist Third World countries. Under the collective agriculture system, all peasants in China enjoy a certain security level or subsistence guarantee, which has sometimes been termed "the iron rice bowl." Official guidelines state that each peasant is to receive a monthly minimum amount of grain as a basic ration (*jiben kouliang*), independent of work points.[38] If grain is available, a peasant who stays in the team and within the law will rarely be denied grain or left to starve. This minimum security is one of the greatest accomplishments of the People's Republic, and a most important distinction of clientelism as it exists in China. Chinese peasants pursue clientelist politics not so much out of fear for their subsistence, but in order to live above the subsistence level.

The degree of dependence on the leaders also varies. Peasants with outside sources of income sufficient to buy black-market grain (for instance, through overseas remittances), or those with other means of obtaining grain, could afford to be more independent of the team leader's

[36] On the possibility of patron-client relations becoming a "central aspect of institutional patterns," see Eisenstadt and Roniger (fn. 12), 49.

[37] One observant former resident of the countryside described the situation thus: "Cadres at different levels have unequal opportunities. Those at the mid-levels look for opportunities and take advantage of them; those at the lower levels who are friends of those in high positions 'go through the back door'; while those at the higher levels only have to wait for people to come and offer them opportunities."

[38] In practice, this minimum ration is not always adhered to. See Oi (fn. 13), chap. 3.

[39] From 1960 to 1966 in Guangdong, for example, those getting overseas remittances were given special coupons for extra rationed goods. This, however, is something of a special case. Areas where overseas remittances play an important role have been largely limited to Guangdong and Fujian Provinces.

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allocation of work and private plots.[39] Team members such as "sent-down youth," whom the state supplied for a time with grain ration coupons, extra grain, and money, probably had the greatest degree of independence from the team leader. A former team leader from north China recalled that the sent-down youths on his team were extremely lax about participating in collective labor. Since he held no power over their well-being, he had difficulty disciplining them. They had independent sources of food and income, and were indifferent about their private plots.[40]

Limits on the Power of Team Leaders

Team leaders are formally constrained in their practice of favoritism by official rules and periodic upper-level supervision. The state-mandated subsistence guarantee is one example of such limits. Informally (and perhaps more importantly), team leaders must be sensitive to their relationships with team members. As in other patron-client systems, the relationship between peasants and team leaders is not a simple one-sided dependency: team leaders are also dependent on team members. In the socialist Chinese context, the dependence of the team leader on the team members takes on a particular importance because the position of the former rests on the cooperation of the latter in producing a successful harvest. If a team leader fails to meet production and sales quotas, and thus does not fulfill his official duties, he is subject to sanctions by his superiors at the brigade and commune levels. Ultimately he may be removed from office.

Former team leaders explained that, although a team leader could use his position to further his own interests and practice favoritism, he always had to be alert to the possibility that he might alienate the majority of his team members to the point where they would no longer obey his orders. He had to maintain a certain degree of fairness.[41] For example, during the famine years of the late 1950s, a team leader could give extra grain to his relatives and favored peasants, but he also had to make sure that the ablest peasants received enough food to continue working. The

[40] Sent-down youths were some of the worst offenders of overdrawing and tended to become permanently "overdrawn households." Part of the problem may have been due to sent-down youths not receiving the same number of work points as local peasants doing the same work. The other part of the problem was the unwillingness or inability of sent-down youths to work. For the most comprehensive treatment of the sent-down youth, see Thomas Bernstein, *Up to the Mountains and Down to the Villages: The Transfer of Youth from Urban to Rural China* (New Haven: Yale University Press, 1977).

[41] This is similar to Riker's idea of minimal winning coalitions: keep enough support to keep up production but not so much that rewards are too diluted. William H. Riker, *The Theory of Political Coalitions* (New Haven: Yale University Press, 1962).

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team leader's need to ensure production and to satisfy the state thus served to prevent a despotic exercise of his power.

Political considerations were a second constraint on a team leader's power. Relationships were entered into with great care after the Socialist Education Campaign and the Cultural Revolution in the mid-sixties, when peasants were "struggled against" and criticized for associating with those who had "bad" class backgrounds or who had committed political mistakes. A politically wise team leader would rarely grant a loan to a former rich or upper middle-class peasant when there were needy families with "better" class backgrounds.[42] In some cases, particularly in politically charged periods, those with "bad" class backgrounds were openly discriminated against. For example, a man who was labeled a "rightist" and "historical antirevolutionary" consistently received poor treatment from his team leader. He had great difficulty getting loans, and received lower work-point ratings for his labor. Other team members were afraid to befriend him.[43]

The application of punishment was also influenced by political considerations. Team leaders as well as work teams hesitated to apply harsh punishment when the offenders were peasants of "good class background"—i.e., "poor peasants." As one work team member stated, they would have to do a lot of explaining if a poor peasant was punished, whereas no questions were asked if formerly rich peasants were dragged out and beaten.[44]

A team leader is thus not an independent patron who has sole authority over the basis of his power—the allocation of resources and income opportunities. The power of a traditional patron, such as a landlord, is based on personal ownership of the wealth or property that he uses for patronage; by contrast, a team leader's power derives from his position in the administrative hierarchy and is granted to him by the state. A team leader is himself dependent on others for his power: both on the state and on his team members. In this sense, socialist

[42] Those with power, however, were not always afraid of taking on clients of "bad" class background who provided sufficient economic benefits. In one case, the son of a Nationalist agent became the client (godson) of a brigade secretary. It may be significant that it was a higher-level cadre, a brigade secretary, who took this sent-down youth as a client.

[43] Parish and Whyte (fn. 27), 98-100, show that those with a "bad" class background are at a distinct disadvantage in obtaining leadership positions. Moreover, those related to persons with "bad" class backgrounds were also routine targets in every campaign.

[44] Team leaders and work team members reported that those with the "not-so-good" backgrounds were the most cooperative and the least troublesome. They were the easiest to control because they knew that they were the first to be criticized in the event of a campaign, and therefore always walked a thin line. The "poor peasants," on the other hand, were often the biggest troublemakers. They knew they were "red" and therefore to a certain degree above reprimand.

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clientelism is one of the more unstable varieties of patron-client relationships.[45]

A team leader can best be described as both a patron and a client. He is similar to Powell's "political broker." A team leader, as a part of the hierarchical commune system, is a patron to his team, but also a client of the brigade cadres; he is dependent on them for his office, his right to distribute the goods available within the team, and thus ultimately his power. If the upper levels decide to reduce agricultural inputs and cut the team budget, demand higher grain sales and lower grain rations, the team leader, as a subordinate, has no choice but to carry out such directives.[46]

Still, limits placed on a team leader's power by the higher-level officials and his relative lack of power in the overall commune system do not necessarily affect his power *within* his team. Power within this bureaucratic system is not a zero-sum game.

Different Types of Peasant Strategies

The types of relationships one finds within this system of clientelism are varied. All peasants pay attention to their relations with their team leaders, but not all peasants employ personal relations in the same way or for the same purpose. Some seek to use personal connections to maximize their opportunities, others only seek to secure their minimum due. Some merely obey, are careful not to offend the team leader, and only *occasionally try* to use connections (*gao guanxi*) with the team leader when they need a special favor. Others obey, are careful not to offend the team leader, and *constantly try* to use connections with the team leader to maneuver themselves into the best jobs and receive special favors. Then there are a few who *have succeeded*, through the use of personal connections, in attaining favored status as a client of the team leader and are routinely assured of preferential treatment.

The system is a fluid one. As in other clientelistic systems, the behavior and treatment of people shift and are not always clear.[47] In many instances, it is a matter of the degree to which favored treatment is accorded. There are, however, certain patterns of behavior that differ-

[45] Landé (fn. 9), xxviii.

[46] Powell (fn. 8); also see Oi (fn. 13), chap. 6, for a detailed discussion of the team leader as a client to the brigade. Christopher Clapham notes the conflicting role of brokers as agents of the center and spokesmen for the locales. See his "Clientelism and the State," in Clapham (fn. 2), 10.

[47] Landé (fn. 9), xxiii-xxiv.

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entiate those who employ personal relations in the Chinese clientelist context.

Clients

A client is most likely to be assigned the best job, the best private plot, the opportunity for contract or temporary jobs in the urban areas, and generally to receive favored treatment.[48] Rather than having to ingratiate himself actively with the team leader each time he wants a favor, a client relies on an established, long-term understanding of exchange with the team leader. Favors need not be immediately repaid. The balance sheet may stretch over many years; there is "long range credit and obligations."[49] The long-term nature of the relationship is particularly common if the same person remains as team leader for many years or repeatedly returns to power after short intervals out of office. Since there is no set term of office, a team leader may be in office for 20 years or for only a few months.

As in all patron-client relationships, the value of the goods or favors exchanged is not always comparable or even measurable. The relationship is based on loyalty and on trust: in the long run, each must honor the mutual obligations of being patron and client. The patron is obliged to give his client favored treatment. In return, he has certain expectations regarding the benefits he will receive.

In the Chinese socialist context, one of the most important benefits for a team leader is respect and the support that it entails. The client is characteristically the team leader's most enthusiastic supporter and helper. He can be counted on to praise the patron's leadership and to encourage others to do likewise. He is the first to carry out orders, and makes sure others do the same. He is the team leader's additional eyes and ears, and looks out for the team leader's position. If a political meeting is called, he is the first to speak out in favor of the team leader's position and to encourage others to follow suit. If the team leader has not made his stand public, the client will voice an opinion that he thinks the team leader wants to hear and to promote.

It has been noted by various students of peasant politics that to be spoken well of is of the utmost importance in a village setting.[50] In

[48] It is not assumed that all clients are accorded equal treatment. As Landé (fn. 9), xxiv, states, there is favoritism within the clientele.

[49] Eisenstadt and Roniger (fn. 12), 50.

[50] James C. Scott, *The Moral Economy of the Peasant: Rebellion and Subsistence in Southeast Asia* (New Haven: Yale University Press, 1976); George Foster, "Peasant Society and the Image of the Limited Good," in Potter and others (fn. 34); Parish and Whyte (fn. 27).

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China, such support is essential because cadres are subjected to investigation in the many and varied political rectification campaigns. When a work team comes to investigate a team leader, the procedure is to solicit opinions from team members. In such a situation, a team leader can turn to his client for help. Team leaders are notorious for trying to bias investigations by placing work teams in the homes of supporters and steering them toward people who can be trusted to praise their performance. In situations where everyone is expected to make criticisms of the team leader, a client will do so, but he will make only the most minimal and insignificant accusations, giving as little damaging information as possible.[51]

Team leaders also benefit from clients privately and materially. Clients routinely provide their patrons with preferential access to rationed or scarce goods that they happen to be in a position to control. Clerks in the local cooperative store, for instance, alert their patrons to the arrival of a new shipment of particularly well-made or scarce items, and give them a discount or a little extra—whether it be a little extra pork or a little extra cloth.[52] In some cases, the items are given as outright gifts. Dinner invitations are also extended, particularly on special occasions, such as when a pig is slaughtered. If the team leader does not accept the invitation, then a prime piece of pork will be taken to his house.[53] In short, clients try to make themselves "useful and likeable" to their patrons.[54]

Non-clients

The majority of peasants are not clients, but their behavior will nonetheless be affected by the importance of the clientelist system. Non-clients also try to establish good relations and secure special favors, but the relationship is not a stable one. Some of these peasants may privately give the team leader valuable gifts and publicly give enthusiastic support, but the expectations and understanding of the exchange are qualitatively different. Favors are exchanged on a more precise and instrumental basis, one for one—what Eisenstadt and Roniger would classify as "specific exchange" rather than "generalized exchange."[55] This type of exchange, along with the general phenomena of "going through the back

[51] Oi (fn. 13), chap 4.

[52] Peasants have a saying, "What peasants need three dollars to buy, cadres can get for one dollar." The meaning is, of course, that position and personal relations made a difference in pursuing one's interests.

[53] When team leaders take advantage of their positions in these ways, peasants term it "*zhan xiao pianyi*" (loosely translated, "taking small advantages").

[54] Landé (fn. 9), xxiii.

[55] Eisenstadt and Roniger (fn. 12).

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door," may be likened to the "grease for the administrative wheels" described by Scott.[56] A peasant may give a chicken or special help to the team leader, but with a *specific* favor in mind. The expectation is definite and the return fairly immediate. Non-clients who persist in using gifts and sycophantic behavior may eventually become clients. Whether they actually will or not is difficult to predict. Considerations such as kin ties or "good" class background seem to incline team leaders more toward some peasants than toward others.[57]

Opportunities to cultivate good relations do not always present themselves. Peasants who are poor, possess few goods, or lack special skills have few chances to secure favors from the team leader through private gift giving. They cannot easily cultivate good relations with the team leader, for example, by inviting him to dinner—especially if there is barely enough for themselves. If, however, it is expected that the team leader be invited to dinner or given a piece of pork whenever a family slaughters a pig, then even non-clients will usually follow suit.

Such limited manifestations of respect may not be sufficient to remain on the good side of a team leader. Peasants who have few gifts to give may adopt defensive strategies to protect themselves and their families from discrimination by the team leader and to ensure their minimum due of available goods and opportunities. As a general rule, if one cannot *gao guanxi* or be a client, one should at least aim at not offending those in power. This means showing the team leader proper respect, giving him "face" and at least minimal compliance, and exhibiting proper political attitudes (*biaoxian*). Most importantly, it means not speaking out publicly against one's team leader.

Saying the wrong thing—especially in public, and particularly against a team leader—has potentially serious consequences. A person may be labeled politically unreliable, unpatriotic, revisionist, or anti-Mao—to name only a few of the dreaded designations. If a team leader wants to discriminate against a team member in the distribution of economic goods and opportunities, such a designation provides a perfect excuse. People sometimes attack one another for past "political" mistakes, "bad" class background, or for reportedly making unpatriotic comments, when, in fact, the real reason for the attacks stems from longtime personal or

[56] James C. Scott, "Corruption, Machine Politics, and Political Change," *American Political Science Review* 63 (December 1969), 1142-58.

[57] The relationship between kinship and the prevalence of the patron-client system is a complex one. The data for China are still sketchy. My findings suggest that clanism translates into clientelist behavior most often when there are two or perhaps three strong surname groups within the same team rather than one or many surname groups within a team. But kinship is just one of the many factors that influence whether someone will become a client.

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economic feuds and vendettas. Political labels and ideology can be used to disguise patronage politics; this was a common practice during the Cultural Revolution.

In one case, a team member was singled out and punished for reportedly criticizing a local grain reserve policy of 1974 that ordered teams in a particular area to keep 20 percent of the harvest from distribution to the peasants. The accused peasant was made an example of, not allowed to work on his private plot, and ostracized by the other peasants. This attack actually stemmed from a personal economic feud with another team member, not from his political statements. His accuser was the person with whom he shared a large house and with whom he had feuded over the ownership of some chickens and pigs that both families raised in their common courtyard.

Many peasants are unwilling to voice their opinions in political meetings, and generally avoid political activity if they can. Peasants were sometimes coerced, or in some instances—after the start of the Cultural Revolution—paid to go to meetings. In one area, peasants were given 8 work points (10 being a maximum in many teams for a day's work) and sometimes free food as an incentive for attending political meetings called by the commune. In another instance, peasants had work points deducted when they failed to attend. Former team leaders and peasants alike reported that peasants disliked attending meetings, seldom spoke up at meetings, and definitely would not express their true feelings in formal settings, even if they were called upon to speak. Most importantly, they would not speak out against their leaders.

A former team leader described most meetings—particularly political ones—as a time when peasants talked among themselves, slept, or knitted; they seldom actively listened or responded as he discussed, explained, or read the latest directives from the upper levels. When he was in front of the peasants wearing his "team leader's hat"—acting in his official capacity—most of the time the peasants did not respond with opinions on policies he was formally presenting to them, particularly if upper-level officials were present. But they were not without reactions: when he took off his "official hat" and talked among them privately and informally as a neighbor, "off the record," he was barraged with their opinions. He said "it was like being two people."

Peasants were sometimes quite active in meetings that directly affected their economic well-being, such as those that determined work points and work ratings or decided the year-end distribution.[58] These meetings

[58] Discussions took place, peasants could complain and ask for higher rations, but in the end the team cadres decided the actual amounts. Team cadres had a monopoly on information

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often turned into shouting matches as peasants fought with each other over payment for their collective labor. But even in these economic meetings, peasants tended to watch what they said. In politically charged periods, such as the Cultural Revolution, too much open concern for one's work points, grain rations, and income could result in charges of being a "capitalist roader." For example, advocating the distribution of more of the harvest as rations, rather than selling more to the state or keeping reserves (*chubei liang*), resulted in political attacks during the early seventies.

When peasants do speak up at political meetings, participation seems more a response out of necessity rather than a spontaneous remark. A good example occurs when criticism sessions are held during campaigns. When a person is under investigation and the outcome is relatively clear, peasants—even those following a defensive strategy—may feel obliged to speak up. If a response is called for by the leadership or the work team conducting the meeting, politically astute peasants follow the cues of the activists by speaking out, harshly or leniently, about the person under investigation.[59]

Fear of offending those in positions of authority who determine their immediate well-being is most apparent in the hesitation and sometimes resistance to use the formal channels provided by the government for interest articulation and protection against bad team leadership. Peasants have the option to appeal to higher-level authorities against their team leaders. In some cases, special work teams are sent to investigate and remove ineffective or corrupt team leaders. Peasants as well as former members of work teams repeatedly reported that, even though work

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needed to make such decisions. They knew in advance how much they had to keep for expenses, approximately how much they had to sell to the state, and how much the state would allow the team to distribute to the peasants. There was participation in these routine business meetings, but it was controlled participation: the agenda of issues and outcomes was never much in doubt. In some cases, a decision may have been a foregone conclusion, but the team leaders nonetheless presented it for collective discussion and approval, as a necessary courtesy. The purpose of most collective team meetings was to educate, explain, and convince the peasants of the correctness of decisions that leaders had already made, rather than to allow peasants actually to formulate policy. Slight adjustments in a decision might be made, but the main policy was usually not changed.

[59] The "activists" in a team usually consisted of young, ambitious people who were not afraid to speak out—most often the so-called "backbone elements" (*gugan fenzi*) who had "good" class backgrounds and nothing to hide. These were the people work teams sought out for information on problems in the team. These were also the people with whom work teams met prior to criticism meetings—for instance, to prepare "black materials" (*hei ziliao*) used to incriminate the person under investigation and to decide who would raise what points during the public meeting. The agenda was set and each person's part was rehearsed. At the mass meeting, they would proceed as planned, present the evidence, make the accusations, and then try to arouse the others in the audience to follow their lead.

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teams would support a team member's charge against a team leader and remove him from office, most peasants were hesitant to speak out against the team leader. Their concern was that he would some day come back to power and make life miserable in minor but nonetheless significant ways; the Chinese term is giving someone "small shoes to wear" (*chuan xiao xiezi*).

It was not uncommon for a team leader to rise and fall several times in his career, particularly if he was basically successful in organizing production.[60] For example, over a period of eight years—from 1963 to 1970—one team had four changes in leadership. The peasant who was team leader fell in 1963, came back in 1965, fell again in 1967, and then came back to power once more as team leader in 1970.

Thus, the economic dependence of team members undermines the effectiveness of the formal channels of interest articulation. Whether passive or active, the public as well as private political behavior of peasants consists of calculated responses in keeping with the general strategy of maintaining good relations with those who are in immediate control of their economic well-being. Peasants pursue their interests through the discreet, informal, and personal channels of a clientelist system of politics.

Conclusion: Socialist Clientelism in Perspective

The pervasiveness of personal ties, informal modes of influence, and personalized systems of authority places in doubt the depth of the social and organizational changes wrought by the communist revolution. One might be tempted to conclude that changes such as collectivization and the establishment of a new power structure are but thin veneers that shield traditional types of behavior. There are, for example, striking similarities between Morton Fried's descriptions of the pre-1949 Chinese countryside, where personal relationships (*ganqing*) formed the "fabric of Chinese society" and the picture presented here.[61] It would be a mistake, however, to think that the fabric is the same. Personal relationships still constitute the fabric of Chinese society, but the new cloth has a significantly different weave and color.

Under collectivized agriculture, peasants have fewer opportunities to

[60] Team leaders are formally elected by team members, but all candidates must be approved by the upper levels. I found that after the Cultural Revolution increasing numbers of team leaders were essentially appointed by the upper levels.

[61] Fried, *Fabric of Chinese Society* (New York: Octagon Books, 1969), provides the classic description of the need of peasants to cultivate good relations in their daily lives.

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cultivate the multistranded patron-client networks described by Fried. Separate ties are not established with the local official, the landlord, the rice merchant, the middle-men buyers, and the various peddlers. Under socialism, the sale and procurement of essential goods and services are funneled through a single, state-approved local official, the team leader, or the state cooperative store. Authority is concentrated in the hands of a local political official upon whom the peasants are economically and politically dependent. Clientelism in China is comparable to authority relations in feudal or traditional pre-market agrarian settings in that peasants are almost totally dependent upon a single elite. The type of dependence and the power of the elite in a socialist non-market system are significantly different, however.

First, the local leaders and the peasants who are directly dependent on them often have the same social-economic background. For example, patron and clients may all be, and frequently are, "poor peasants." As in Djilas's "new class," power and (unequal) opportunities in a socialist clientelist system are based on *position* within the communist bureaucracy.[62] Local patrons derive their power from their position to allocate essential goods and services rather than from private ownership of the bases of patronage. Comparisons may be drawn between socialist patrons and the party bureaucrats described by Powell who become "political brokers" through the distribution of party-controlled goods.[63] An essential difference, however, is that in the Chinese socialist case there is only one party, and that one party and its agents control access to all essential goods—including food, work, and income opportunities—not just to public goods, such as the building of roads or schools.

Second, even though under socialism peasants are dependent on their political leaders for a wide range of goods, their position is much more secure than that of the traditional peasants described by Scott. Under collectivization, peasants are guaranteed a minimum subsistence through the distribution of the basic grain ration, irrespective of their physical abilities. Consequently, they do not need to pursue clientelist politics in order to safeguard their subsistence. But peasants do pursue clientelist politics as a means of getting ahead and receiving special consideration in the distribution of the rewards available in a system that theoretically prohibits unequal access to goods and resources. Such strategies are *interest-maximizing* rather than risk-minimizing.[64]

[62] Milovan Djilas, *The New Class: An Analysis of the Communist System* (New York: Praeger, 1957).

[63] Powell (fn. 8).

[64] In this sense, my analysis is closer to Popkin's view of clientelism. See Samuel Popkin,

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The introduction of markets into a traditional agrarian setting has been seen as disruptive to patron-client relations by causing landlords to extract more surplus for sale from the peasants.[65] It has also been argued that markets provide increased opportunities for peasants to develop exchange relationships with elites other than their landlords, and can thus strengthen their positions.[66] Opportunities are even greater for peasants if there are competitive electoral politics in which potential patrons vie for support.[67]

It is unlikely that Chinese peasants will ever find themselves in a situation of competitive electoral politics, but it does seem that increasing opportunities exist for them to go outside of the team and develop independent arrangements that may decrease their dependence on their team leader. Since 1979, economic reforms have given markets an increasingly important role; they have begun to dismantle the system of collectivized agriculture and, with it, the power base of team leaders that has been described here. Peasants now contract for and work individual plots of land. Team leaders no longer have the power to determine peasant income through the assignment of work; nor do they have the power to apportion the grain harvest. In fact, peasants are no longer required to participate in collective labor. Rationing still exists; but grain can be purchased, if at higher prices, on the free market. Peasants, after meeting their quotas, can sell their surplus on the free market.

The question is what effect these changes will have on the system of clientelist politics that I have described. Current research suggests that the structural circumstances that gave rise to clientelism in China—control over income opportunities, a system of rationing that allows personal control over (and unequal access to) scarce goods, and a fusion of economic and political authority—still exist to a considerable degree despite the changes in the organization of agriculture. Although peasants are no longer dependent on the team to allocate their grain rations or to determine the amount or kind of agricultural work they must do, they still need authorization to leave the team for any length of time,

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The Rational Peasant: The Political Economy of Rural Society in Vietnam (Berkeley: University of California Press, 1979), 72-82.

[65] Scott (fn. 50); James C. Scott and Benedict J. Kerkvliet, "How Traditional Rural Patrons Lose Legitimacy: A Theory with Special Reference to Southeast Asia," in Schmidt (fn. 7), 439-58; Eric R. Wolf, *Peasant Wars of the Twentieth Century* (New York: Harper & Row, 1969); Barrington Moore, *Social Origins of Dictatorship and Democracy: Lord and Peasant in the Making of the Modern World* (Boston: Beacon Press, 1966).

[66] Popkin (fn. 64).

[67] Scott (fns. 8 and 56).

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and local-level recommendations for certain jobs and training, and for loans. Moreover, peasants are still dependent on centralized distribution—and by extension, local officials—for agriculture inputs, including seed, chemical fertilizer, and most importantly, the allocation of land.[68] The situation is still one of unequal access to goods and resources, or what Graziano has described as the "incomplete capitalistic rationalization of the economy" (in Southern Italy).[69]

The introduction of markets may dilute the power of the team leader; new patrons may emerge, but the basis of clientelist politics has not been eliminated. The re-emergence of markets seems to have made the pattern of clientelist politics more complex and dispersed, more like that which existed in pre-1949 China, but indications are that clientelist patterns are being reinforced.

The applicability of the present findings for other socialist settings awaits further studies of micro-politics in different sectors of China and other communist states. Recent research on Chinese factories indicates that the type of clientelist politics described here is not an anomaly peculiar to rural China.[70] One would logically expect clientelism to play a similarly significant role in elite-mass relations in other communist states as well. There may be variations in the phenomenon, but the structural circumstances that create clientelism in China—centralized distribution systems, scarcity of goods, unequal access to and personalized control over the distribution of basic goods and income opportunities, as well as the fusion of economic and political authority—are characteristic of most other socialist systems in varying degrees.

What is clear from this study is that one should not classify political systems according to their official ideology. One of the most significant findings—or perhaps it should be called a non-finding—is the limited effect of communist ideology on the operation of clientelism. The institutional structure of a communist state does not so much eliminate traditional patterns of clientelism as it reshapes them. Eisenstadt and Roniger have noted that

> while any single type of patronage . . . may disappear . . . new types may appear, and . . . they can be found in a variety of forms in many societies,

[68] These are tentative conclusions based on my research in Hong Kong and China conducted during the summer of 1984. The situation is still in flux, however.

[69] Luigi Graziano, "Patron-Client Relationships in Southern Italy," in Schmidt (fn. 7), 361.

[70] Andrew G. Walder, "Communist Social Structure and Workers' Politics in China," in Falkenheim (fn. 6).

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> cutting across different levels of economic development and political regimes, and seemingly performing important functions within these more high developed modern frameworks.[71]

The present study documents the rise of forms of clientelism in a communist state; more importantly, it suggests that clientelism should be part of the definition of a communist political system.

[71] Eisenstadt and Roniger (fn. 12), 46.

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STRATEGIES OF POLICY IMPLEMENTATION: Policy "Winds" and Brigade Accounting in Rural China, 1968-1978

By DAVID ZWEIG*

IN this paper, I examine two key relationships relevant to the comparative study of policy implementation. The first is the linkage between the structure of elites, techniques of mobilization, and local policy implementation.[1] Although many studies of elites have emphasized the effects of integration on political stability,[2] they have only recently addressed the question of how elite integration affects policy implementation.[3] More specifically, how does the existence of elites that are deeply divided over policy issues affect the power capabilities and opportunities of those elites[4] and, therefore, the methods they employ to mobilize support for their policies? And how do these techniques affect the pattern

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[1] The data on the local response to brigade accounting were collected during approximately 200 interviews that took place between September and November 1980 in Hong Kong, and between December 1980 and July 1981 in Beijing and in three brigades in different parts of rural Nanjing Municipality, Jiangsu Province. The complete interview data are available from the author.

[2] The best analysis of the literature on the relationship between elite integration and political stability is Robert D. Putnam, *The Comparative Study of Political Elites* (Englewood Cliffs, NJ: Prentice-Hall, 1976).

[3] See Merilee S. Grindle, ed., *Politics and Policy Implementation in the Third World* (Princeton: Princeton University Press, 1980), 3-34. See also Cynthia McClintock's chapter on Peru in this volume, pp. 64-97. For the best analysis of this relationship in Chinese politics, see Lucian Pye, *The Dynamics of Chinese Politics* (Cambridge, MA: Oelgeschlager, Gunn & Hain, 1981).

[4] See Charles W. Anderson, "The Latin American Political System," in Norman T. Uphoff and Warren F. Ilchman, eds., *The Political Economy of Development* (Berkeley: University of California Press, 1972), 171; cited in Grindle (fn. 3), 12.

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of local policy implementation? The second relationship is that between policy content and policy implementation.[5] If we can place a policy within a specific issue area,[6] does that help to explain the local response, and whether or not it is implemented? By looking at one policy—brigade accounting in rural China between 1968 and 1978—and placing it within conceptual frameworks developed outside of the China field, I hope to shed light on these questions.

The case of brigade accounting shows that the thoroughness of policy implementation is generally determined by the coherence of high elite members with each other, the pattern and extent of their connections with leaders of local units, the local environment where implementation occurs, and the nature of the policy's content as it affects the local area. Between 1968 and 1978, China's elite was highly disintegrated, with various factions vying for political power, each bent on implementing its own vision of rural China. The radical faction, confronting a fractured elite and possessing limited political influence at the center, turned to informal policy channels to mobilize rural support for brigade accounting. But reliance on informal policy channels weakened its ability to monitor implementation and ensure compliance; without the party center's imprimatur it could not formally punish evasion.[7] This political weakness left the final outcome dependent more on the local environment and the interests of local leaders than on the policy preferences of the national elite, resulting in wide variations in patterns of policy implementation.[8]

At the local level, officials responded to the policy's redistributive nature, which hurt the "class" interests of the advantaged groups. Some local leaders simply kept the issue off the agenda entirely. Where pressure was applied, they raised the issue but resisted implementing it. Some who adopted this policy changed its content, making it less redistributive.

[5] Grindle suggests that both policy "context" and "content" are crucial variables for explaining policy implementation. See *ibid.*, 8-10. For an adaptation of that approach to policy implementation in China, see David Zweig, "Content and Context in Policy Implementation: Household Contracts in China, 1977-1983," in M. David Lampton, ed., *Policy Implementation in the Post-Mao Era* (forthcoming, 1985).

[6] See Theodore J. Lowi, "American Business, Public Policy, Case Studies, and Political Theory," *World Politics* 16 (July 1964), 677-715.

[7] For a discussion of compliance and control in bureaucracies, see Herbert Kaufman, *Administrative Feedback: Monitoring Subordinate Behavior* (Washington, D.C.: The Brookings Institution, 1973).

[8] For an analysis of how local environment led to different patterns of policy implementation in the American context, see J. David Greenstone and Paul E. Peterson, *Race and Authority in Urban Politics: Community Participation and the War on Poverty* (New York: Russell Sage Foundation, 1973).

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In fact, local leaders implemented the policy only when they saw clear personal benefits, or when direct elite penetration left them no other option.

Brigade Accounting: The Radical Perspective

The production team, with approximately 30 families and 150 to 200 people, was established by the *Sixty Articles on Agriculture* as the basic unit of account in rural China following the consolidation of the People's Communes in 1962.[9] After the Cultural Revolution overthrew the urban party elite, radical leaders attempted to carry out the transition from team to brigade accounting. Brigades, the economic and political unit that lay between the production team and the commune administration, had approximately seven production teams—about 220 households and roughly 1,000 persons.[10] (See Table 1.) In China, rural accounting units did not simply involve ways of adding up statements in ledgers. An accounting unit combined economic decision making and the political authority of the state (government and party bureaucracy); thus, it was a locus of economic and political government. The radical leaders feared that the development of vested interests at the team level would undermine support for further transitions to higher stages of socialism—in their view, the ultimate purpose of the revolution. They believed that if society did not move forward, it would retrogress; the collective would be dismantled and capitalism would return. Therefore they advocated the transition to brigade accounting, to be followed by a shift to commune accounting, leading eventually to "ownership by all the people." In his speech to the 1975 Dazhai Conference, Hua Guofeng announced that

> in the more distant future, the commune should shift from collective ownership to ownership by all the people, and then from the system of socialist ownership by all the people to communist ownership by all the people.[11]

[9] For an analysis of people's communes after the Great Leap Forward, see Byung-joon Ahn, *Chinese Politics and the Cultural Revolution* (Seattle: University of Washington Press, 1976). The best description of the functions of the various levels of the people's communes around 1975 is Fredrick W. Crook, "The Commune System in the People's Republic of China, 1963-74," in U.S. Congress, Joint Economic Committee, *China: A Reassessment of the Economy*, 94th Cong., 1st sess. (Washington: G.P.O., 1975), 366-410.

[10] *Ibid.*, 338.

[11] Hua Guofeng, *Mobilize the Whole Party to Develop Agriculture and Struggle to Generate Emulation of Dazhai Counties* (in Chinese) (Beijing: Renmin chuban she, 1975), 25. Translations are by the author of this article unless otherwise noted.

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TABLE 1
INSTITUTIONAL STRUCTURE IN THE CHINESE COUNTRYSIDE, 1975

Party Organization	*Governmental Organization*		
	State	*Number of units in China*	*Population per unit*
County Party Committee	County	2,200	
+	COLLECTIVE		
Commune Party Committee	Commune	50,000	7,000
+	+		
Brigade Party Branch	Brigade	750,000	1,000
+	+		
Party Cell (only if there are three party members in a production team)	Production team	5 million	150-200
	PRIVATE		
	Household	150 million	

To that extent, the transition to brigade accounting was more than just a simple organizational change; it represented a concrete manifestation of the ideological drive for utopia.[12]

Brigade accounting had two additional goals: equalizing rural incomes and consolidating party control in the rural areas. Peasants received "work points" for their daily labor, which determined their respective share of the collective's year-end profits. As the profits of the units increased, so did the value of each work point. (See Table 2.) By consolidating wealthy teams with poorer ones and shifting the accounting unit from the smaller team to the larger brigade, peasants from poor teams could draw a larger income for the same amount of work from the new, brigade-wide collective profits than they had from their old team.

Finally, brigade accounting placed the authority for decisions on distribution and accumulation of grain and capital in the hands of the lowest level of party organization in the countryside, the brigade party branch. By instituting brigade accounting, the vital decisions affecting local capital formation, the development of rural enterprises, grain sales

[12] A similar shift from collective farms (*kolkhoz*) to a higher level of socialist ownership in the state farm (*sovkhoz*) was also part of the Soviet Union's vision of utopia. See James A. Gilison, *The Soviet Image of Utopia* (Baltimore: The Johns Hopkins University Press, 1975).

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TABLE 2
RURAL PAYMENT SYSTEM

Step 1:	$\frac{\text{gross team income} - \text{costs}}{\text{number of work points distributed to peasants over entire year}}$	=	value of 1 work point
Step 2:	value of 1 work point × number of work points earned by a peasant = a peasant's collectively derived income		

to the state, and the peasants' livelihood were removed from the team leaders (whom the peasants could influence), and placed directly under the control of members of the Chinese Communist Party (CCP). This way, radical elites increased the likelihood that their policies would be implemented.

ELITE STRUCTURE AND TECHNIQUES OF MOBILIZATION

Between 1968 and 1978, decision making in China involved a highly factionalized struggle over power and policy; on most issues, decisions fell prey to factional politics. Studies of rural policy debates during this period show sharp conflicts between conservative (pragmatic) leaders and supporters of more radical agricultural policies in China.[13] Even foreign policy decisions were affected by factional struggles.[14] One study shows that between 1974 and 1976, intense interfactional conflict disrupted the Party's institutionalized policy-making structure, the Central Party Documents series, allowing the center to pass only a few authoritative decisions.[15]

The distinctiveness of the present study lies in the fact that it examines the implementation of a policy that, during the period in question, was never officially sanctioned by the party center. Chinese sources maintain that a shift of ownership from the team to the brigade was never

[13] See Jurgen Domes, *Socialism in the Chinese Countryside* (Montreal: McGill-Queen's University Press, 1980). See also David Zweig, "Agrarian Radicalism in China, 1968-1978: The Search for a Social Base," Ph.D. diss. (University of Michigan, 1983), chap. 3.

[14] See Thomas Gottlieb, *Chinese Foreign Policy Factionalism and the Origins of the Strategic Triangle* (Santa Monica, Calif.: The Rand Corporation, 1973), and Kenneth Lieberthal, "The Foreign Policy Debate in Peking as Seen Through Allegorical Articles, 1973-1976," *China Quarterly*, No. 71 (September 1977), 528-54.

[15] See Kenneth Lieberthal, with James Tong and Sai-cheung Yeung, *Central Documents and Politburo Politics in China* (Ann Arbor: Michigan Papers in Chinese Studies, No. 33, 1978).

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championed in Central Party or State Council Documents. Nor did the national press, such as the *People's Daily* or *Study and Criticism* (the Shanghai journal controlled by the radicals), ever advocate immediate transitions. Hua's speech at the 1975 Dazhai Conference stated only that "when conditions are ripe" the gradual transition to brigade and then commune accounting should take place.[16] Even outspoken advocates of brigade accounting were circumspect in their public support for this policy. In 1968, Zhang Chunqiao, a member of the Gang of Four, is alleged to have called on poor brigades, not just wealthy ones, to make the transition; publicly, however, he stated that "it will take a fairly long time to affect the transition from the team to the brigade."[17] If he did call for brigade accounting, it was never published in the press. In fact, the majority of the press reports that discussed the policy criticized it. The only articles that discussed the issue without criticizing it reflected the post-1978 Third Plenum dilemma that confronted places already using brigade accounting: should they return to team accounting or could they stay with brigade accounting?[18]

Still, this policy was carried out in many places. By 1978, over 66,700 brigades (more than 9.5 percent of the brigades in China) had established brigade accounting.[19] Even where it was not implemented, many local cadres and peasants began to debate the policy in the late 1960s. But how did supporters of brigade accounting influence the local leaders' decisions if they could not use the official channels?

"Winds" and Policy Mobilization

The technique by which the rural areas were mobilized to implement this and other policies is best understood by the concept of "winds" (*feng*). Policy "winds" in China blow both vertically and horizontally;[20]

[16] Hua Guofeng (fn. 11), 25.

[17] Zhang Chunqiao, *On Exercising All-Round Dictatorship Over the Bourgeoisie* (Beijing: Foreign Languages Press, 1975). I was told about Zhang's various activities in an interview at the Institute of Agricultural Economics, Chinese Academy of Social Sciences, in April 1981.

[18] See *People's Daily*, March 20, 1979; *Shaanxi Daily*, January 21, 1979; and *Hubei Daily*, January 21, 1979.

[19] Information given in a lecture on the Chinese countryside by a professor in the Economics Department at Nanjing University, March 12, 1981.

[20] In 1977-1978, before central leaders made unofficial speeches to rally support for "household production quotas" or tried out official "test points," Anhui's use of this remuneration system became known in Nanjing and stirred up a "horizontal wind." Local leaders who did not like it, ignored it; those who supported it, tried it out. See David Zweig, "Implementing the System of Responsibility: Central Policy and Local Response," Conference on Bureaucracy and Rural Development in China, S.S.R.C. Joint Committee on Contemporary China, Chicago, August 26-30, 1981.

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a "central wind" refers to the process of mobilization within the party and/or governmental bureaucracy instigated by some leaders in the center for a policy that had not attained consensus among all leadership groups, and was, therefore, not advocated through official party or government channels. Mao had established a precedent for whipping up winds when, in 1955, he convened a meeting of provincial party secretaries to organize support for the acceleration of collectivization. He preempted the central leadership, mobilized action on behalf of the policy at the provincial level, and forced the issue onto the central agenda.[21]

The radical faction mobilized support for brigade accounting outside the formal policy-making structures in a similar way. At no time between 1968 and 1978 did supporters of brigade accounting, such as Chen Boda, Lin Biao, Zhang Chunqiao, Yao Wenyuan, Jiang Qing, or Hua Guofeng, have total decision-making authority in the Central Committee of the CCP or the Politburo. It is quite likely that, even in the late 1960s and early 1970s, when Lin Biao was part of this group, cadres of the administrative apparat (such as Zhou Enlai, Li Xiannian, and Dong Biwu), "regional commanders" (such as Xu Shiyou), and "party veterans" (such as Zhu De and Liu Bocheng) opposed the radical program.[22] This opposition did not prevent the radicals from mobilizing support for their policies. As Pye points out, institutional roles and functions are often secondary in the policy-making process in China, and "at its very inception, policy tends to be somewhat divorced from administration and thus highly susceptible to symbolic manipulation."[23] The radicals simply went outside the formal policy-making structure and used various methods—including what Pye would call "symbolic manipulations"—to whip up a wind for brigade accounting and force the issue onto the local agendas. This way they avoided the party center entirely.

First, the radicals established "test points" (*shi dian*) or experimental locations for this policy; then, they disseminated information on them through the press, unofficial speeches, organized visits by local bureaucrats, and word of mouth. For example, Chen Boda went to Sijiqing Commune in the suburbs of Beijing in spring 1968 and called for the consolidation of teams and the establishment of brigade accounting.[24] The content of such a speech would travel quickly around the country

[21] See Parris Chang, *Power and Policy in China* (University Park: University of Pennsylvania Press, 1975).

[22] See Jurgen Domes, *China After the Cultural Revolution* (London: C. Hurst, 1975), chap. 2.

[23] Pye (fn. 3), 15.

[24] *Zhejiang Daily*, November 29, 1978, p. 3.

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by the "news of the little road" (*xiao dao xiaoxi*). At the same time, Lin Biao is supposed to have established a similar "test point" in Zhejiang. Journalists came to visit it and are alleged to have reported its success in the national press.[25] Shaanxi Province had ten test points,[26] and Quanshu County, Anhui Province, established two test points in 1970. When one of Fuyu County's two test points proved unsuccessful, officials did not institute the policy in other areas of this Jilin Province county. In Nanjing Municipality, the city established its own test point in 1978.

Test points and models are useful only when people in other localities learn from them. Therefore, officials from different places visited these model units. In 1975, all commune secretaries in Nanjing Municipality and all team leaders in Nanjing's Qingxiu Brigade visited Huaxi Brigade, one of the few Jiangsu provincial brigades that established brigade accounting before 1976. Trips to Dazhai, the famous radical brigade in Shanxi Province that had brigade accounting, helped to mobilize support for this policy.[27]

Another strategy was to link campaigns. From 1968 to 1978, local and central campaigns were common throughout the Chinese countryside. Although few of them focused specifically on brigade accounting, the policy was inserted (like a rider amendment on a congressional bill) into some campaigns, either at the center or the middle levels.[28] Chen Boda and Lin Biao established their "test points" under the slogan of the "three contributions and one amalgamation" which was slipped into the national "Three Loyalties Campaign" of 1968.[29] Because Dazhai had brigade accounting, this policy was tied particularly to the various Dazhai campaigns. According to one interviewee, in 1970 a brigade secretary in Shanxi quelled opposition by other cadres, arguing that those who

[25] *Ibid.*

[26] *Shaanxi Daily*, January 10, 1979, p. 1.

[27] The Dazhai Brigade, in Xiyang County, Shanxi Province, played a crucial role during the entire period. It first became famous in 1964 when Zhou Enlai called on all Chinese peasants to learn from the Dazhai peasants' "communist spirit" of hard work and self-reliance. In the late 1960s, it became a model for many of the radical policies. In 1975, at the First National Conference on Learning from Dazhai in Agriculture, Xiyang County, where Dazhai is located, became a national model as attention shifted to strengthening the county party committee's role in organizing rural development. In 1976, however, the Gang of Four criticized Dazhai Brigade and the Dazhai Movement for its excessive attention to economic development at the expense of ideological development. See Edward Friedman, "The Politics of Local Models, Social Transformation and State Power Struggles in the People's Republic of China: Tachai and Teng Hsiao-p'ing," *China Quarterly*, No. 76 (December 1978), 873-90.

[28] Mao blamed the 1959 "communist wind" during the Great Leap Forward (which led to expropriation of private and team property) on overzealous commune and county cadres. See "Speech at Lushan Conference," in Stuart R. Schram, ed., *Mao Tse-tung Unrehearsed: Talks and Letters, 1956-71* (London: Penguin, 1974), 134.

[29] *Zhejiang Daily* (fn. 24), 3.

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opposed brigade accounting opposed learning from Dazhai, and opposition to Dazhai was counterrevolutionary. Another informant, whose brigade became the unit of account in 1969, said that people did not oppose the shift because "at that time there was a movement to learn from Dazhai, and brigade accounting was considered a progressive thing, so people did not object."[30] According to some informants, Chen Yonggui's speech at the Second Dazhai Conference in December 1976, which stressed the importance of brigade development, helped to keep the wind alive. A commune official in Nanjing attributed one unit's decision to establish brigade accounting to that specific conference:

> The policy was that all places with proper conditions should go to brigade accounting. Also we were stimulated by the example of Dazhai which had brigade accounting. This was the time of the Second Conference to Learn from Dazhai. After this conference, places in the suburbs of Beijing and Shanghai started to have brigade accounting. So we studied these experiences and decided to have a test point.

In mid-1976, people who opposed brigade accounting were accused of "rightist tendencies"; the policy was thus linked to the "Campaign Against Deng Xiaoping and the 'Rightist Deviationist Wind.' "[31]

By starting a wind, the radicals hoped to create a "radical environment."[32] Articles in journals or newspapers controlled by the radicals, speeches that never became official documents, and other techniques would pressure local bureaucrats into putting the issue on the local agenda and attempt to persuade them to implement the measure. Rural officials, hearing that the new policy had been implemented in neighboring locations, might reconsider their hostility toward it. As the policy spread, a nonconforming official could become an obvious target. And as the wind intensified, support or opposition in this highly politicized environment could become a question of political stand (*lichang*), confronting bureaucrats with the possibility that resistance could become a political error (*zhengzhi cuowu*). Rural cadres understood that it was "better to be left than right" (*ning zuo wu you*); while "rightist" errors were political errors, "leftist" errors were only errors of leadership style (*zuo feng*). Pressured to make a choice, many local cadres would take the safer path and force leftist policies on the peasantry. Peng Dehuai understood this problem. In his 1959 attack at Lushan on the Great Leap Forward he stated that "in our Party it has always been difficult

[30] My thanks to Marc Blecher who shared his interview protocol with me.

[31] See *People's Daily*, January 10, 1979 and February 10, 1978.

[32] Unger refers to a "milieu of activism," from which I draw my sense of the "radical environment." See Jonathan Unger, "Collective Incentives in the Chinese Countryside: Lessons from Chen Village," *World Development* 6 (1978), 583-601.

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to correct 'leftist' [ones] and comparatively easy to correct 'rightist' mistakes. Whenever something leftist comes up, it always prevails over everything; many people dare not speak out."[33]

By means of such techniques, local leaders in many parts of China were pressured to consider implementing brigade accounting. Because it was not an official policy, however, and pressure for implementation came only in the shape of informal policy winds, local leaders did have a great deal of leeway in deciding whether or not to implement it. Thus, while 9.5 percent of the brigades in rural China eventually adopted the policy, many areas remained totally unaffected. In some parts of the country, it was kept off the local agenda entirely, but the radical environment generated by the winds forced units in other areas to confront the issue and even to discuss it officially—even though in the end they did not adopt it. And among those who did implement the policy, its content differed greatly.

Systemic Explanations

Different systemic factors explain why a unit would decide to implement brigade accounting. They include (1) the province in which the brigade was located, (2) the level of inter-team equality, (3) the size of the brigade, (4) cropping patterns, (5) proximity to urban centers, (6) the fact that a brigade may have been a "model unit," and (7) the nature of local and county leadership.

The province in which a unit is located was a very important factor. Thirty-five percent of all brigades in Shanxi Province, and 38 percent in Beijing, still had brigade accounting in 1979. The provinces that had the largest percentage of brigade accounting, and the largest percentage of such units nationally, are listed in Table 3. Since these 12 provinces comprise 86.5 percent of all units with brigade accounting, the predominance of the North China Plain, and of northern China in general, is obvious.

Relative inter-team equality explains why some localities were successful in implementing the policy.[34] A Shanxi informant observed that his locality established brigade accounting with little local opposition because inter-team differences were minor. A brigade outside Nanjing was successful because it had helped poorer teams catch up with wealth-

[33] Union Research Institute, *The Case of P'eng Te-huai* (Hong Kong, 1968), 3.

[34] See Matthias Stiefel and W. F. Wertheim, *Production, Equality and Participation in Rural China* (London: Zed Press, 1983), 61-63, and Eduard B. Vemeer, "Social Welfare Provisions and the Limits of Inequality in Contemporary China," *Asian Survey* 19 (No. 9, 1979), 858.

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TABLE 3

BRIGADE ACCOUNTING BY PROVINCE, 1979[35]

	Percentage of Brigades per Province with Brigade Accounting	*Percentage of Brigades Nationally*
Beijing	37.7	2.9
Shanxi	35.0	21.0
Tianjin	21.9	1.6
Shandong	21.0	13.0
Heilungjiang	17.0	4.0
Nei Mongol	14.0	3.0
Hebei	11.0	10.0
Xinjiang	11.0	2.0
Zhejiang	9.0	7.0
Fujian	7.0	2.0
Hubei	6.0	11.0
Shaanxi	5.0	9.0
Total		86.5

ier ones for ten years before establishing brigade accounting. Where inequalities were considerable but local leaders had been forced to establish brigade accounting, the experiment tended to collapse after a year or two. Still, inequality did not preclude the establishment of brigade accounting. In one Shanxi commune, all brigades established brigade accounting in 1969, even though large income discrepancies existed among the teams. In this case, commune-wide pressure to implement the policy was intense. Geophysical factors, such as terrain and access to water and other natural resources, affected brigade accounting to the extent that they created income variations. Brigades with teams both in the hills and in the valleys were more likely to have significant income disparities, and were therefore less likely to establish brigade accounting.

Size of the brigade refers both to the population and the number of teams. Brigades with many teams were more likely to have significant geophysical differences within the unit, exacerbating income differentials. A brigade south of Nanjing had some of its 26 teams in the hills, some in the valleys, and some on mixed terrain. Although its economy was strong, work-point values differed significantly among its teams.

[35] See *Chinese Agricultural Yearbook* (Beijing: Agricultural Publishing House, 1983), 6.

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The brigade secretary did not respond when county and city officials in 1977 suggested a shift to brigade accounting because he considered 26 teams too difficult to manage. With the aid of published data on brigade accounting, this and other hypotheses are tested in Table 4.

Using information from *The Chinese Agricultural Yearbook*, we can correlate the number of teams per brigade in each province with the percentage of brigades in that province that adopted brigade accounting. A significant negative relationship means that provinces with fewer teams per brigade were more likely to have more brigade accounting. A strong negative correlation also suggests that brigades with fewer teams were more likely to establish brigade accounting. The correlation between the percentage of brigades with brigade accounting per province and the number of teams per brigade per province was $-.483$ ($p < .01$). Although the use of provincial-level data to make assumptions about local behavior suffers from "ecological fallacy," interview data support

TABLE 4
SYSTEMIC VARIABLES EXPLAINING BRIGADE ACCOUNTING*

Hypotheses	*Correlation Coefficient*
1. Brigades with fewer teams were more likely to shift to brigade accounting	$-.483$ ($p < .01$)
2. Brigades that shifted to brigade accounting were more likely to have amalgamated teams	.617 ($p < .01$)
3. The fewer the people in a brigade, the more likely the shift to brigade accounting	$-.270$ ($p > .05$)
4. The greater the party density, the greater the likelihood of brigade accounting	.683 ($p < .01$)
5. Units that had shifted to lower-level agricultural producer cooperatives in 1955 were more likely to adopt brigade accounting	.657 ($p < .01$)

*Data for hypotheses 1, 2, and 3 are from *Chinese Agricultural Yearbook* (fn. 35); data for hypotheses 4 and 5 were collected by Michel Oksenberg and first used in Frederick C. Teiwes, "Provincial Politics in China: Themes and Variations," in John M. H. Lindbeck, ed., *China: Management of a Revolutionary Society* (Seattle: University of Washington Press, 1971), 116-89.

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these findings.[36] In one village, two of five brigades consisted of a single production team; in another locality, the smallest brigade with only 3 or 4 teams had established brigade accounting. It is highly probable that by 1979 many of the 67,000 brigades with brigade accounting were those with only a small number of teams.

This relationship between the number of teams per brigade and the percentage of brigades in a province that had brigade accounting may be due to the fact that more teams were consolidated in these provinces than elsewhere; therefore, the number of teams per brigade was smaller. The peak periods of team amalgamation, 1968-1970 and 1976-1978, coincide with the radical winds of brigade accounting.[37] The radicals had urged the consolidation of production teams to create larger work and accounting units as a preliminary step to brigade accounting. Although data on team amalgamations are not available at the provincial level, we can examine the average number of people per team for each province, and assume that more people per team reflect a tendency to amalgamate teams. A positive correlation would suggest that brigades that amalgamated teams (not just brigades that already had fewer teams) were also likely to move to brigade accounting. The correlation between the number of people per team in each province and the percentage of brigades with brigade accounting in that province is .617 ($p < .01$).

Size, in terms of the number of people in a brigade, was also considered. Brigades with fewer people were easier to manage than those with more, and therefore may have been more amenable to brigade accounting. Dazhai Brigade itself was small, with only 800 people. In Xiyang County, where Dazhai is located, one "brigade," which I visited in summer 1981, was composed of a tiny village miles away in the hills and had nine laborers; Sungzhuang Brigade in Chiliying Commune, Henan Province, which also had brigade accounting, had only 29 households and 1.4 hectares of land.[38] When this relationship is tested at the provincial level, the findings do not support the argument that provinces with fewer people per brigade were likely to have a higher incidence of brigade accounting. Although it points in the right direction, the correlation of $-.270$ is not significant ($p > .05$). Thus, the number of people in a brigade may not have been an important factor in instituting brigade accounting.

[36] For a discussion of ecological fallacy, see Richard L. Merritt and Stein Rokkan, eds., *Comparing Nations: The Use of Quantitative Data in Cross-National Research* (New Haven: Yale University Press, 1966).

[37] See Zweig (fn. 13), 91.

[38] See *People's Daily*, August 6, 1973.

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Cropping patterns also affected implementation. Units that relied less on agriculture and more on sideline activities—such as fishing, forestry, raising tea, or industrial production—were more likely to make the transition. Of the 54 units nationwide with commune accounting in 1979, many were fishing villages.[39] Units with a heavy emphasis on sideline activities were managed as large commercial enterprises rather than as agricultural ones. In these types of units, enterprises were easier to establish, so the brigades tended to be wealthier. Also, their financial investments generated inter-team equality more easily than those of brigades whose inter-team inequality was derived from differences in soil. Wertheim visited a famous tea commune near Hangzhou where 10 of 13 brigades had brigade accounting; the 3 still using team accounting grew grain. The explanation he received was that in tea-growing brigades, workers live in teams that are close together, and there are no great differentials in income among teams or households. Where grain is the main crop, habitation is more dispersed, which accounts for the greater economic role of the production teams.[40]

Proximity to urban centers was important. Many units with brigade accounting were situated in the suburbs. Chen Boda's test point, Sijiqing Commune, was in the suburbs of Beijing. Zhang Chunqiao reportedly tried to establish brigade accounting throughout suburban Shanghai in 1975-1976. Two independent factors may explain this relationship. First, since radical political power was primarily limited to certain urban centers and a few provinces—hence, the high percentage of brigade accounting in Beijing, Tianjin, Shanxi, and Zhejiang—the radicals were able to affect outcomes in the suburbs, but had more difficulty penetrating remote rural areas. Second, suburban units were wealthier and had more brigade industry.

Model units were likely to have brigade accounting because they were closely tied into politics at the national, provincial, or regional level.[41] When a new trend arose, models were called on to set the example. If they did not support new policies, other units would be hesitant. Qingxiu Brigade, the model in Jiangsu Province, was pressured to adopt brigade accounting in 1977; one informant reported that his unit, a model in learning from Dazhai, was the county's first to make the transition. Sinan County, where 80 percent of the brigades shifted to brigade accounting, was Guizhou Province's model in learning from Dazhai and

[39] Interview at the Agricultural Economics Institute, Chinese Academy of Social Sciences, April 1981.

[40] See Stiefel and Wertheim (fn. 35), 61.

[41] See Friedman (fn. 27).

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Xiyang County.[42] Dapu Brigade, a model in Gansu Province, which had achieved national prominence in 1973, was pressured to make the transition in 1976. Prefectural officials felt that this nationally renowned unit could set the pattern for others.[43]

The nature of local and county leadership affected the implementation of brigade accounting in several ways. As the Chinese themselves have maintained, strong brigade leadership was essential for successful transitions.[44] It could overcome local opposition and efficiently manage the larger production unit. One informant attributed the policy's success in a Shaanxi brigade to the strength and drive of the brigade secretary. A Nanjing suburban brigade also had a very powerful brigade secretary. An example from Huiyang County, Guangdong Province, shows the obverse; according to an interviewee, leadership was weak, and the policy failed. In particular, a transition became more likely where county or brigade leaders were "leftist" or "radical," due either to ideological predilections or opportunistic beliefs that the radicals would win.

Equally important may have been the issue of party membership. The radical environment directly affected party members who could not afford accusations of being "rightists." Party members were also likely to be affected by ideologically motivated policies. Areas with a high density of party members therefore possessed a cadre of peasants who might respond to radical winds even if they were unpopular. Using mid-1950s data on the percentage of the population in the CCP per province,[45] we can test the hypothesis that density of party membership per province affected the adoption of brigade accounting. By reconstructing the data from the 1980 *Agricultural Yearbook*, we find a positive correlation of .683 ($p < .01$) between provinces with brigade accounting and party density per province. The density of CCP members was greatest in North China provinces—where there is also the highest incidence of brigade accounting. Although this finding may suffer from the ecological fallacy, it makes sense intuitively.

To a certain extent, a unit's history of voluntarism, radicalism, or support for higher levels of socialism may have contributed to its willingness to adopt brigade accounting. In 1955, locations that established

[42] *People's Daily*, April 4, 1979.

[43] See *People's Daily*, November 28, 1978.

[44] Other requirements enumerated to me in interviews in China in 1981 included relative inter-team equality, mass support, and a sound brigade economy.

[45] The data were collected by Michel Oksenberg and first used by Frederick C. Teiwes in "Provincial Politics in China: Themes and Variations," in John M. H. Lindbeck, ed., *China: Management of a Revolutionary Society* (Seattle: University of Washington Press, 1971), 116-89.

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lower-level agricultural producer cooperatives (APCs) did so primarily on the initiative of collectivist-oriented local leaders. The correlation between the percentage of brigades with brigade accounting per province in 1979 and the percentage of households in lower-level APCs in 1955 per province was .657 ($p < .01$), showing that provinces which quickly accepted the shift to cooperatives were also willing to adopt brigade accounting.

To summarize: in order to explain why brigade accounting was adopted, one must take into account the importance of the North China Plain, with its greater party density, its history of voluntarism, and the fact that it was penetrated by radical provincial elites in the late 1960s. In addition, cropping patterns, suburban locations, and tendencies toward amalgamation were important factors.

Local Interests

Rural officials supported and implemented brigade accounting for various personal, political, and economic reasons. In some cases, they wanted to make their own locality famous. In one prefecture, officials took their local model team, combined it with two other wealthy teams to form a new brigade, and then pressured it to shift to brigade accounting. They felt that in order to create a nationally recognized "model" in their area, it had to be at least the size of a brigade.[46]

County and commune officials supported brigade accounting when it helped them in their work. In Hubei Province, county officials decreased the embarrassingly high number of poor teams under their jurisdiction by uniting many poor teams into one brigade. "If we have 7 or 8 poor units and we put them all together, we will have only one poor unit."[47] When a county in Fujian Province forced peasants to switch to double-cropped rice, the concomitant shift to brigade accounting expanded the brigade's ability to control the type of crops planted.[48] In another location, commune officials supported brigade accounting because it increased sales to the state (for which they were responsible).[49]

For some brigade officials, brigade accounting helped to resolve economic and political difficulties. It transferred the authority for resource distribution and accumulation from the teams to the brigades. By controlling team granaries, for instance, a brigade could sell more grain to the state. Officials could pass the quotas of poorer or less productive

[46] *People's Daily*, November 28, 1978. [47] *Hubei Daily*, January 21, 1979.
[48] Victor Nee, "Peasant Household Individualism," in William Parish, ed., *China's Rural Development: Evolving Issues* (Armonk, NY: Praeger, 1985).
[49] *People's Daily*, March 20, 1979, p. 2.

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teams on to more productive ones, ensuring fulfillment of state quotas. For example, Teams 2 and 3 in Dongliu Brigade, Laomiao Commune, in Shaanxi Province originally had the same quotas. After brigade accounting was established, Team 3 had to sell 10 tons and Team 2 only 4.5 tons.[50] In Jilin Province, two teams argued over a strip of land that divided them; brigade accounting solved the problem by transferring ownership of the land to the brigade. Some brigades were able to redistribute funds from rich to poor teams; in suburban Nanjing one brigade tried to use brigade accounting in 1978 to resolve demographically derived inequalities by pressuring peasants from the largest and richest team to move into the smallest and poorest one—but in vain.

A number of local officials responded to the ideological pressures of the radical environment. In one case, a 30-year old brigade secretary who had been a school teacher and had studied Mao's writings more than most local leaders supported the policy because it would indicate the depth to which his brigade was willing to learn from Dazhai. My informant felt that this official had indeed been motivated by ideological predilections; others, however, responded to ideological pressures opportunistically, without a real commitment to the policy's ideological goals. When commune leaders put forth the slogan "open up a great revolutionary step, don't be a woman with bound feet" (*bian kai geming da bu, bu dang xiaotui nuren*), they were concerned with expressing their revolutionary ardor.[51] After April 1976, when it appeared that the "Gang of Four" might win, political fears prompted some middle-level officials to implement the policy for self-protection.

The Pattern of Opposition

How did the 90 percent of locations who did not adopt brigade accounting respond to the wind? In some areas, simply nothing happened; the wind had no effect at all. In conservative provinces such as Jiangsu, where pressures were minimal, local leaders who heard about the policy kept it off the local agenda. One informant from Jiangsu recalled talking with brigade officials when the wind of brigade accounting blew by. They told her that they were not interested in the policy and would not let the peasants discuss it. Here brigade officials demonstrated what Bachrach and Baratz have called "the other face of power."[52] In a third variant, local leaders implemented the policy, but,

[50] See *People's Daily*, January 4, 1979. [51] *Hubei Daily*, January 21, 1979, p. 1.

[52] See Peter Bachrach and Morton Baratz, "The Two Faces of Power," *American Political Science Review* 56 (December 1962), 947-52.

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by changing its content during the implementation stage, altered the outcome preferred by the radicals. Finally, where the wind was strong enough to force the issue onto the local agenda, rural cadres were still able to avoid implementing the policy. How and why did they alter the policy's content and in some cases resist implementing it? What were the local dynamics of the response? Was there something about the policy that triggered this opposition?

THE ISSUE OF REDISTRIBUTION

The potential of brigade accounting for redistributing wealth among production teams generated strong opposition from the brigade level down. By compelling teams of unequal economic strength to unite their economic resources, the policy clearly benefited the poorer teams. *Peking Review* of 1966 described the redistributive effects of brigade accounting.

> In one brigade, a member of one team gets one *yuan* per workday, while in another team he gets only 0.7 or 0.8 *yuan* a workday. In such cases, if the brigade and not the team were taken as the basic accounting unit, distribution of income would have to be based on an average of the teams. This ignoring of the differences between teams would lead to a harmful egalitarianism, dampening the labor enthusiasm of members.[53]

In Nanjing, redistribution precipitated conflicts. When the city established a "test point" in its nearby suburbs in 1977, the two wealthiest teams—as well as their peasant members—suffered a serious financial loss, with both teams losing about 5,000 *yuan*. Per capita income in the larger of the two teams dropped by 40-50 *yuan*. One team leader expressed his personal anger:

> We did not know much about it when it began. But we got "ripped off" (*chi kui*). In 1978 we raised a lot of complaints; everyone in our team complained. I didn't say anything in front of my team members, but I went to the brigade and the commune leaders to complain.

In the smaller team, per capita loss was greater; at 80 *yuan*, it amounted to approximately 15-20 percent of each peasant's income. Little wonder this team's leader stormed out of the brigade meeting when informed of the policy. Since the decision to establish brigade accounting in this specific unit had been made at the municipal level, however, local opposition was futile.

[53] "Brigades and Teams: Survey of a Commune (iii)," *Peking Review* 12 (March 18, 1966).

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ALTERING POLICY CONTENT

Although brigade accounting redistributed wealth from the richer to the poorer teams, the extent of that redistribution varied according to the form employed. Responding to pressures from officials above and peasants below, localities that reacted to the wind diffused hostility by changing the policy's content. In some cases the response was formalistic and the extent of redistribution minimal.[54]

According to a "total equality" system, brigades used each team's gross income to pay its expenses, including the salaries of brigade cadres. Brigade officials also kept track of the number of work points the peasants earned. This way, each peasant's income was based upon the entire brigade's net profit rather than merely his own team's; peasants in poor teams received more than their units produced, the difference coming from the larger contribution of the richer teams.

This extreme form of redistribution took place occasionally, but most units redistributed less. One brigade in Wuxi County, Jiangsu Province, returned half of each team's gross income after extracting brigade expenses. But since each team kept half its gross income and distributed the profits among its members, the richer teams still had more to distribute.[55]

Two other units, one in Nanjing and the other in Anhui, redistributed less than the Wuxi brigade. Nanjing's suburban brigade employed a complicated system of brigade accounting in 1978. Although this method appeared extremely egalitarian, the peasants' income was not based on any brigade-wide work-point value. Instead, after the brigade had paid its expenses, it repaid all of its teams, based on the quantity and cash value of their output. Each team then determined its own work-point value and paid peasants for their labors based on the team's profits. The brigade-wide work point thus remained a formality.

Still, the policy was redistributive for several reasons. By rewarding each team for the weight as well as the cash value of its output, it gave more money to teams with high outputs of cheap vegetables than to teams which produced somewhat smaller quantities of highly valuable vegetables. Since wealthier teams produced more valuable crops than

[54] For an analysis of "formalism" in policy implementation, see Zweig (fn. 13), 316-23. In Zambia, Quick found the local response to the "ideological" program to establish rural cooperatives to be formalistic. See Stephen A. Quick, "The Paradox of Popularity: 'Ideological' Program Implementation in Zambia," in Grindle (fn. 3), 50.

[55] Information was supplied by Marc Blecher who, with Vivienne Shue and Steve and Phyllis Andors, visited this brigade in 1979. It was also the focus of a report in *Beijing Review*, 14 April 1980.

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poorer teams, redistribution from rich to poor occurred. In 1978, the same unit, following the example established by Dazhai Brigade, restricted per capita distribution to 180 *yuan*, so the wealthier teams accumulated more capital. When the brigade became the unit of account that year, it took each team's year-end accumulation and never returned it. The two wealthier teams thus suffered an economic loss.

A location in Anhui, which established brigade accounting in 1970, used the least redistributive variant of all:

> All teams gave the same percentage of their total income to the brigade. The brigade then put aside money for the accumulation fund, the welfare fund, and for expenses. The brigade also paid the taxes. It then figured out the "basic work-point value" (*di fen*) for the whole brigade, which determined how much each unit would give out. Then it took each team's contribution to the brigade as a percentage of the total contribution of all teams and determined what percentage of the remaining funds would go to each unit. . . . This method cut down on inequality, but it also was fair in that each team got back an amount based upon how much it contributed. If your unit contributed more, you got more.

Wealthy teams paid a larger share of the brigade's expenses, but the final per capita distribution was still based on each team's collective output. Therefore there was no redistribution of funds from one team to another.

Although the last two units described above formally established brigade accounting, there was less redistribution than the concept implies. Local leaders managed to avoid accusations of excessive redistribution and angering wealthy units while protecting themselves politically from upper levels who supported the policy. Because it was a policy wind, no formal guidelines had been established for brigade accounting, leaving local leaders great leeway in deciding if and how to implement it. And because the policy's redistributive content triggered opposition, some local leaders changed the content and implemented less redistributive methods.

VESTED INTERESTS AND RURAL CLASS CONFLICT

The policy's redistributive content triggered a form of "class conflict" between wealthy and poor units in rural China. In any political system, institutional stability creates entrenched political and economic interests. Post-1949 China is no different. After 1962, production teams developed collective interests which to some extent reflected institutional class interests in rural China. In 1960, Mao recognized that the restructuring of rural China and the move to higher levels of socialism would lead to a confrontation with "cliques of vested interests":

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> Although socialist society destroys classes, within the developmental process it is possible there will be a problem of "cliques of vested interests." They will not be willing to change the established system. . . . The establishment of any new system always destroys some of the old system. There can be no construction without destruction.[56]

Mao maintained that these forces would have to be defeated and the institutions destroyed if China were to continue toward a communist society. This perspective prompted Starr to refer to Mao's concept of political development as "deinstitutionalization," in contrast to Huntington's concept of "institutionalization."[57] Evidence suggests, however, that the "vested interests"—in this case the rich teams—undermined this Maoist example of political development.

Over the years, members of production teams developed collective interests in opposition to other teams. Barriers among teams and among villages rigidified.[58] Peasants grew accustomed to working as a team, and "a mild hostility to other teams had arisen over the years."[59] Even after the Cultural Revolution, spontaneous inter-team cooperation was almost nonexistent.[60] Economic factors reinforced collective consciousness: the wealth of the team determined a large part of each family's income, especially during 1968-1978 when private household economic activity was tightly restricted; although conflicts among households may have existed, peasants depended on each other for prosperity. Particularly where brigade economies were weak, peasants probably felt little loyalty to any organization beyond the team.[61]

Lowi has argued that "redistribution" led to patterns of conflict that reflect the "power elite" rather than the "pluralist" model.[62] According to the former, a sharp demarcation of interests develops, based on bureaucratic and institutional lines; the power elite uses its preferred political position to keep inimical issues off the political agenda. Lowi maintains that of all policy types, redistributive issues most closely reflect "class conflict" in terms of intensity; structurally, they also cut closest to "class lines."

[56] *Mao Zedong Sixiang Wansui* [Long live Mao Zedong thought] Yoshihiko Ogura, ed. (Tokyo: Tashu-kan, 1967), 192.

[57] See John Starr, *Continuing the Revolution* (New Haven: Yale University Press, 1979), 277, and Samuel Huntington, *Political Order in Changing Societies* (New Haven: Yale University Press, 1970), 8-12.

[58] See William Parish, "China: Commune, Brigade or Team?" *Problems of Communism* 25 (March-April 1976).

[59] Unger (fn. 32), 398.

[60] Interviews in Hong Kong and rural Nanjing.

[61] The best discussion on how teams used economic incentives to develop collective loyalty from the peasants is Unger (fn. 32).

[62] Lowi (fn. 6).

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The analogy of class conflict can be extended. Analyzing modern industrial society, Ralf Dahrendorf argues that absence of private ownership in a bureaucratic system makes class and class power dependent on the distribution of authority within "imperatively coordinated associations."[63] In the 1960s and 1970s, the power relationship among brigade officials and team leaders and peasants in China's countryside reflected Dahrendorf's model of industrial society. Little private property existed; structures were bureaucratic; and decisions—particularly on distributing or redistributing resources—were controlled by "administrative commands" (*xinzheng mingling*) in the brigade.

Furthermore, the wealthier teams were often able to influence decision making in brigades because they usually controlled the post of brigade party secretary. Four of the five brigade secretaries I interviewed in Nanjing came from relatively rich teams. In another case, an informant reported that the two leading brigade officials—both from the richer teams—had kept the issue off the local agenda.

One of the major indicators of class dominance in socialist societies is inequitable access to resources, such as education, which permits those from the preferred economic groups to claim more than their fair share of political power.[64] For example, in a Shanxi Province brigade, the richer villages and teams had been sending their children to school since the 1920s. The poorer villages, however, had developed no such tradition. The stress on education continued after 1949; consequently, brigade officials—who should know how to read and write—consistently came from the wealthier teams.

> The people in my team liked the idea of brigade accounting because it would help them financially. But the people in Team No. 5 did not like it because they would lose a lot if they had such an accounting system. The cadres in the brigade came mostly out of Team No. 5, partly because their population was bigger, but also because they were richer and so could afford to send their children to school to learn to read. So they came back and became the brigade leaders and had all the power.

The inequitable opportunities for education extant before 1949 persisted under socialism in this Shanxi brigade, creating institutionally based political inequality. Since this was a radical province and the wind

[63] Dahrendorf, *Class and Class Conflict in Industrial Society* (Stanford, CA: Stanford University Press, 1959). For an application of this theory to China's Cultural Revolution, see Tang Tsou, "The Cultural Revolution and the Chinese Political System," *China Quarterly*, No. 38 (April-June 1968), 63-91.

[64] See David Lane, *Politics and Society in the USSR* (New York: New York University Press, 1980), 409.

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of brigade accounting was strong, local leaders were not able to keep the topic off the agenda. However, the officials consistently used their political leverage to avoid establishing brigade accounting.

> They had a brigade meeting every year to discuss the question of brigade accounting, and once they even had a "study meeting" (*xuexi ban*) for 20 days at the county for cadres from four levels, but they never carried out the policy. ... The main reason was the big differences in the teams' incomes.

In other words, rich people used their wealth to gain more education—which, when translated into political power, was employed to protect their economic interests.

A final example of how wealthy teams used their political power to defeat poor teams and prevent brigade accounting and the redistribution of resources concerns events that transpired in 1969 in Zhejiang Province's Shaoxing County, near Hangzhou—the year after Lin Biao established his "test point" outside Hangzhou—where the radical environment was strong. My interviewee was an active participant in the entire proceedings.

> It was a policy decided from below. No one at the higher levels made you do it, but there was this wind. It occurred twice. Once was after the Ninth Central Committee meeting [1969], which was called the "Ninth Congress East Wind." Another occurred sometime later. We thought about it, but we didn't do anything about it because the cadres who had the real power were all from the rich teams. If they had been from the poor teams, they would have supported it. The decision not to get together was not one team's decision; it was made by the brigade cadres.

As Table 5 shows, the brigade power structure favored Teams 3 and 4, who controlled the major positions. The 1969 work-point value differed only slightly among the teams, but the long-term economic prospects were more favorable for Teams 3 and 4. Therefore amalgamation would cost them dearly. Representatives from Team 2 had little or no power and only the Party Branch member from Team 1 had authority to challenge the delegates from Teams 3 and 4.

> The three most powerful people were the brigade secretary, the brigade accountant, and the head of the revolutionary committee. All were from Teams 3 and 4. They deliberately avoided the question of amalgamating teams. They could avoid raising it altogether or raise it but not stress it. What they did was just let it flow by. There was no order (*mingling*) and no central document (*wenjian*).

But because many units in this county were adopting brigade accounting, they could not avoid the issue.

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TABLE 5
BRIGADE POWER STRUCTURE
SHAOXING COUNTY, ZHEJIANG PROVINCE

PARTY BRANCH (three members)	
Brigade Secretary	Team No. 3
Brigade Accountant	Team No. 4
Branch Member	Team No. 1
BRIGADE REVOLUTIONARY COMMITTEE (R.C.) (in order of political power)	
Brigade Party Secretary	Team No. 3
Head, Brigade R.C.	Team No. 4
Brigade Accountant	Team No. 4
Member, Party Branch	Team No. 1
Vice-Head, Brigade R.C.	Team No. 2
Member, Brigade R.C.	Team No. 3
Member, Brigade R.C.	Team No. 4
Member, Brigade R.C.	Team No. 1
Women's Representative	Team No. 2

> So we had an expanded brigade meeting with members of the party branch, the revolutionary committee, production team cadres and representatives of the commune members. There were 40 to 50 people at the meeting to discuss the problem. It was a special meeting to discuss amalgamation. I was there. The meeting was extremely intense (*ji lie*). There was real arguing (*zhenglun*). People stood up to put forward their positions and then someone else would get up and oppose their position.

The divisions were very much along the lines of rich-versus-poor teams.

> People in Teams No. 1 and 2 all supported amalgamation. They argued that, since everyone else did it, why shouldn't they? If we don't amalgamate, how can we say we are learning from Dazhai? Centralizing leadership is good for production and for developing socialist enterprises.

Representatives of the wealthier teams also used the slogan "Learning from Dazhai," but would not accept brigade accounting.

> The opposition argued that one could study Dazhai without amalgamating. To develop production it is not necessary to unify teams, and leadership can be centralized without amalgamating. One side raised a point and the other side opposed it.

But without any formal document demanding policy implementation, the outcome was determined by the power distribution in the brigade.

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> So in the end we did not act upon this issue. We simply dismissed the meeting without resolving the issue (*bu huan er san*), which of course left everyone angry.

Obviously, the cleavages among rich and poor teams concerning this issue were intense; in the absence of upper-level bureaucratic fiat, rich teams controlled the final outcome. Through their political or class authority, brigade secretaries acted in their own teams' interests and prevented the outcome preferred by the radical elites.

Conclusion

Not only in China, but wherever the national elite is disintegrated, factionalized, or divided by serious policy disagreements, national politicians who fail to gain the central government's backing for their sectarian policies may still find opportunities for mobilizing support for these policies outside formal policy-making structures. In Zambia, when Kaunda confronted opposition within his own party to his plan for rural cooperatives, he took his case directly to the people and called on them to form cooperatives of all kinds.[65] A similar phenomenon occurred in Chile in the early 1970s. Divisions between Socialists and Communists within Allende's ruling coalition over the nationalization of factories prompted the Socialists to go outside the coalition and organize trade unions to strike selected factories. Once the factories had become economically unviable, Chile's laws allowed the Socialists to nationalize them.[66]

In the case of China's brigade accounting, the radical elites, confronted by opposition, used policy winds to mobilize rural society and to place their issues onto local agendas. In this way, their radical policies for socioeconomic transformations were implemented in a few cases.

Downs points out that all bureaucracies confront a "leakage of authority" due to the divergent goals of the center and the localities.[67] As the level of implementation in the bureaucracy drops, the degree of authority that is delegated increases. And as the gap grows between elite goals and local interests, what Downs calls the "overall bias" expands.

[65] Quick (fn. 54), 45.

[66] See Arturo Valenzuela, *The Breakdown of Democratic Regimes: Chile* (Baltimore: The Johns Hopkins University Press, 1982). Another study looking at unofficial policy formation by a small group within a ruling elite is Laurence Schneidmann, *Atomic Energy Policy in France Under the Fourth Republic* (Princeton: Princeton University Press, 1965).

[67] See Anthony Downs, *Inside Bureaucracy* (Boston: Little, Brown, 1967), chaps. 11 and 12.

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The present study has shown that local leaders responded to their own political and economic interests, and were relatively unaffected by the elite's ideological goals. As the overall bias and the degree of delegated authority increased, so did the leakage of authority. A great deal of maneuverability for policy adjustments existed when ideologically based policies were implemented at the brigade level.

Moreover, in any bureaucracy it is difficult to establish effective channels for "bureaucratic feedback" to monitor lower-level compliance.[68] In the case of brigade accounting, the task was even more formidable since radical elites relied mostly on informal policy winds and the creation of a radical environment to influence local decisions. Thus they had great difficulty preventing evasion. According to Kaufman, lower administrative levels are unlikely to rebel; "more often, when orders from above conflict sharply with their values, they quietly construe the orders in a way that makes them tolerable."[69] Due to the radicals' reliance on informal policy winds, local leaders often were able to reject the policy outright. Where they chose or were pressured to implement the policy, many responded formalistically or adjusted its content to match local needs. In the end, there was little the radicals could do.

The strategy employed by the elites—using policy winds and informal channels for mobilization, as well as politicizing the policy itself—precipitates a formalistic response. Local officials, under pressure from bureaucratic elites, are more concerned with demonstrating conformity than with really implementing the policy's content. Quick's findings on the Zambian cooperative movement corroborate this analysis.

Resistance or evasion is even more likely for redistributive issues, when the redistribution would affect the economic or class interests of local power holders. In the case of brigade accounting, local officials utilized the "second face" of power to keep the issue off the local agenda. Moreover, evasion is even more likely in bureaucratic societies where political and economic power at the locus of implementation is fused in the same functional role. If those whose economic interests are directly threatened are the same people who must exercise political power to implement the policy, resistance is a foregone conclusion in the absence of direct pressure.

The radical elites failed to mobilize most of rural China in response to their call for institutional transformation and the establishment of brigade accounting. Only a limited number of places implemented the policy. As part of a radical program of Maoist political development,

[68] Kaufman (fn. 7).

[69] *Ibid.*, 4.

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brigade accounting was defeated by the same vested interests it sought to destroy. The defeat of this as well as of other policy issues laid the basis for the thermidor of China's rural revolution once the radicals had been purged from the national elite.

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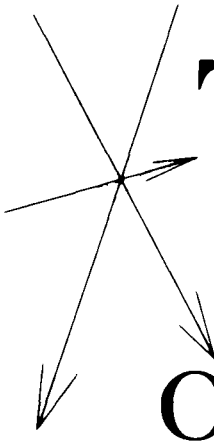

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